

ALCAN
ALUMINIUM
LIMITED

AR54

Aluminum...



the Material

of Choice

1996
ANNUAL
REPORT



Alcan Aluminium Limited, a Canadian corporation, is the parent company of an international group involved in all aspects of the aluminum industry. Through subsidiaries and related companies around the world, the activities of the Alcan Group include bauxite mining, alumina refining, power generation, aluminum smelting, manufacturing and recycling. Approximately 33,000 people are directly employed by the Company, with thousands more employed in its related companies.

In the 95 years since it was established, Alcan has developed a unique combination of competitive strengths, with owned hydroelectricity in Canada, proprietary process technology and international presence. With operations and sales offices in more than 30 countries, the Alcan Group is the most international aluminum company as well as the largest producer and marketer of flat-rolled aluminum products. The word ALCAN and the Alcan symbol are registered trademarks in more than 100 countries and are synonymous with aluminum the world over.

The Alcan Group is a multicultural and multilingual enterprise reflecting the differing corporate and social characteristics of the many countries in which it operates. Within a universal framework of policies and objectives, individual subsidiaries conduct their operations with a large measure of autonomy.

Alcan Aluminium Limited has approximately 21,550 registered holders of its common shares and 1,430 registered holders of its preference shares. While distributed internationally, the Company's shares are mostly held in North America.

Further information on Alcan and its activities is contained in various company publications such as *A Commitment to Continual Environmental Improvement*, published in 1996. These publications are available by writing to the address shown on page 65.

TERMS

The word "Alcan" or "Company" means Alcan Aluminium Limited and, where applicable, one or more consolidated subsidiaries. A "subsidiary" is a company controlled by Alcan. A "related company" is one in which Alcan has significant influence over management but owns 50% or less of the voting stock.

The "Alcan Group" refers to Alcan Aluminium Limited, its subsidiaries and related companies.

In this report, unless stated otherwise, all dollar amounts are stated in United States dollars and all quantities in metric tons, or tonnes. A tonne is 1,000 kilograms, or 2,204.6 pounds.

The following abbreviations are used:

/t	per tonne
kt	thousand tonnes
kt/y	thousand tonnes per year
Mt	million tonnes
Mt/y	million tonnes per year

ANNUAL MEETING

The Annual Meeting of the holders of common shares of Alcan Aluminium Limited will be held on Thursday, April 24, 1997. The meeting will take place at 10:00 a.m. in the Ballroom of the Marriott Château Champlain, 1 Place du Canada, Montreal, Quebec, Canada.

COVER

Aluminum is no longer simply the *metal* of choice, it is now the *material* of choice for Alcan customers around the globe.

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Fabricated Products Shipments



Lower fabricated products volumes in 1996 reflect the divestment of non-strategic businesses. Revenues were further impacted by lower prices.

millions of US\$



Net Income (Loss)*

Net income declined in 1996 due to lower metal prices and reduced fabricated products margins in Europe.

*Before extraordinary item

	1996	1995	1994
Financial Data			
(in millions of US\$, except per common share amounts)			
Sales and operating revenues	7,614	9,287	8,216
Net income before extraordinary item	410	543	96
Net income	410	263	96
Return (%) on average common shareholders' equity	9	11*	2
Total assets (at year-end)	9,325	9,736	10,003
Capital expenditures	482	441	356
Ratio of borrowings to equity (at year-end)	23:77	29:71	35:65
Per common share (in US\$)			
Net income before extraordinary item	1.74	2.30	0.34
Net income	1.74	1.06	0.34
Cash from operating activities	4.34	4.63	0.29
Dividends	0.60	0.45	0.30
Common shareholders' equity (at year-end)	20.57	19.84	19.17
Operating Data			
(in thousands of tonnes)			
Fabricated products shipments**	1,797	1,958	1,952
Ingot products shipments***	810	801	897
Primary aluminum production	1,407	1,278	1,435
Secondary/recycled aluminum production	639	523	496

* Before extraordinary item.

** Includes products fabricated from customer-owned metal.

*** Includes primary and secondary ingot and scrap.

- Bauxite Mining/Reserves
- Alumina Refining
- Specialty Chemicals
- Primary Aluminum Smelting
- Super Purity Aluminum Refining
- Recycling/Secondary Smelting
- Sheet and/or Foil Rolling
- Other Fabricating

Alcan also has sales/marketing offices, research and technology facilities or other activities in Austria, Belgium, Bermuda, Denmark, Finland, Hong Kong, Hungary, Korea, Poland, Portugal, Russia, Sweden and The Netherlands.

Raw Materials and Chemicals



Bauxite Mining

- 11 bauxite mines/reserves in six countries (including related companies).
- 330 Mt of demonstrated reserves in subsidiaries[†] and related companies.
- 11.1 Mt used in 1996.
- \$53 million in bauxite sales.



Alumina Refining

- 12 alumina plants in nine countries (including related companies).
- 5.0 Mt of annual capacity in subsidiaries[†] and related companies.
- 4.8 Mt produced in subsidiaries[†] and related companies.
- \$293 million in alumina sales.



Specialty Chemicals

- 8 specialty chemicals plants in four countries (including related companies).
- \$174 million in sales.

In addition to the sales of bauxite, alumina and specialty chemicals indicated above, Alcan's non-aluminum products account for \$257 million in sales.

Metal Supply



Purchased Ingot and Fabricated Products^{††}

- 507 kt of primary ingot, 2 kt of secondary ingot and 48 kt of fabricated products purchased.



Primary Production^{††}

- 13 smelters in four countries.
- 1.6 Mt of annual capacity.
- 1.4 Mt produced in 1996.
- \$1.0 billion (592 kt) in ingot sales.^{†††}



Secondary/Recycled Aluminum

- 7 recycling plants in four countries.
- 653 kt of annual capacity.
- 639 kt produced in 1996.
- 446 kt of scrap purchased.
- \$190 million (119 kt) in ingot sales.
- \$134 million (99 kt) in scrap sales.

Process Scrap



Post-Consumer Scrap





Fabricated Products

Rolled Products^{††}

- \$3.6 billion (1,304 kt) in sales.^{††††}
- Fabricated 258 kt of customer-owned metal.

Other Fabricated Products^{††}

- \$1.4 billion (235 kt) in sales.

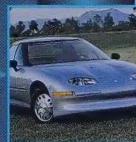
Total Fabricated Products^{††}

- Over 60 manufacturing plants in 10 countries.
- \$5.0 billion in sales in 1996.^{††††}
- 1.8 Mt of aluminum fabricated in Alcan facilities.

Customers and Markets

Containers and Packaging

- \$2.6 billion in sales.
- 44% of total fabricated and non-aluminum product sales.
- End uses include beverage cans, household foil, foil dishes and containers, bottle closures and foil laminates for packaging applications.



Transportation

- \$457 million in sales.
- 8% of total fabricated and non-aluminum product sales.
- End uses include automotive structures, body panels and engine parts, wheels and radiators, aircraft structures, rail carriages, freight cars and ships.

Electrical

- \$589 million in sales.
- 10% of total fabricated and non-aluminum product sales.
- End uses include overhead transmission cable, cable wrap, condenser windings, underground distribution cable, heat sinks and house wiring.

Building and Construction

- \$911 million in sales.
- 16% of total fabricated and non-aluminum product sales.
- End uses include windows and doors, roofing and cladding, lighting poles and fixtures, structures and handrails.

Other Markets

- \$1.3 billion in sales.
- 22% of total fabricated and non-aluminum product sales.
- End uses include machinery, appliances, heat exchangers, PVC pipe, wear components, synthetic marble and zirconium chemicals.

[†] Includes joint ventures,
proportionately consolidated.

^{††} Excluding related companies.

^{†††} Also includes purchased ingot.

^{††††} Excluding fabrication
of customer-owned metal.



Our 1997 Strategic Priorities

Implement Full Business Potential with the target of increasing after-tax returns by \$300 million and earning our cost of capital within three years.

Strengthen the position of aluminum in the marketplace and ensure its future as the material of choice.

Aggressively seek out opportunities to maximize shareholder value.

Slower than expected economic growth — particularly in Europe — and widespread inventory reductions by customers kept primary metal prices under pressure through most of 1996, and resulted in the first year-over-year decline in Western World demand for aluminum since the early 1980s.

By year-end, however, it appeared that we had finally seen the end of the prolonged period of inventory “destocking” that began in 1995. Aluminum shipments recovered steadily to levels more in line with industrial production. The return to a healthier, balanced market was reflected in improved bookings.

ALCAN'S 1996 MILESTONES

Despite a challenging business environment last year, we achieved some important milestones. We further strengthened our balance sheet and completed our program to divest ourselves of non-strategic businesses. While business divestments have naturally led to lower shipments and revenues, the real result of our efforts is that Alcan is now financially stronger and focussed on its core activities. This provides a solid platform for future growth.

Net income for 1996 was US\$410 million. Alcan's fabricated products volumes were comparable to year-earlier levels after adjusting for the impact of business disposals, but average realized prices were markedly lower.

The difficult market conditions — and their impact on earnings — served to underscore the significance of what we did achieve in terms of building a stronger, more competitive Alcan for the future. Having eliminated some \$600 million from our permanent cost base earlier in the 1990s, we managed during 1996 to complete the divestiture of those businesses — mostly downstream operations — that did not fit with our core strategies. We substantially strengthened Alcan's balance sheet — attaining a debt:equity ratio of 17:83 (net of surplus cash) at year-end 1996, thereby exceeding the target we had identified last year as a top priority.

So far as those two key initiatives are concerned — tightening Alcan's strategic focus and increasing its financial flexibility — the job is essentially done. However, we still have work to do in other crucial areas — such as raw material costs, which have not come down as far or as fast as we had aimed. Consequently, raw material costs will be subjected to close scrutiny during 1997. Cost considerations were also behind a decision to undertake a feasibility study into opening up our own bauxite mine in Australia.

*Photo at left:
Jacques Bougie (left),
President and Chief
Executive Officer, and
Dr. John R. Evans,
Chairman of the Board.*

Also worthy of note is the 1996 restructuring of Alcan's holdings in Japan and the rest of Asia, which put in place the main elements for a comprehensive, integrated Asian strategy that reflects the changing dynamics of the marketplace.

**— health and safety...
a key indicator of operational excellence**

The restructuring essentially reinforces Alcan's support of its subsidiaries and related companies in Southeast Asia and China, while enabling Nippon Light Metal Company, Ltd. to focus on strengthening its businesses in Japan.

In another area, Alcan considers the health and safety of its employees to be of paramount importance — and a key indicator of operational excellence. We are continually striving to improve our performance in this regard, with the ultimate goal of achieving zero work-related injuries and illnesses. We are pleased to report that in 1996 we recorded the lowest days-lost rate since we began tracking this indicator on a company-wide basis.

FULL BUSINESS POTENTIAL — A PRIORITY FOR 1997

On balance, we made significant progress in implementing our strategy and shaping a stronger, more competitive Alcan. The fact remains, however, that neither Alcan — nor, for that matter, our industry — has yet succeeded in creating the sort of business environment that can produce satisfactory returns on a sustained basis. Alcan has generated returns exceeding its cost of capital in only two of the past 14 years. The industry as a whole has managed to do it only once during the same time frame.

It is evident that we have to start doing something different, in order to provide shareholders with improved value and sustained returns of a magnitude that will

merit continued confidence. Accordingly, in 1997, Alcan will be implementing a program aimed at tapping the "full business potential" of its entire operations. The goal is to ensure that, within the next three years, we will reach the point where we are able to earn at least our cost of capital even at the relatively low metal prices prevailing today. Attaining this goal will entail increasing ongoing annual profitability by some \$300 million, after tax, by the end of that period.

The process of achieving our full business potential is already under way. During 1996, we analyzed each business to identify the optimal, realizable return from existing assets — equipment, systems, people and technology. In 1997, appropriate action plans are being implemented.

Although further reductions to both fixed and variable costs are an essential element of the drive to realize full business potential, this is a multi-faceted effort that will also encompass reassessing such areas as product mix, distribution channels, customer profiles and changes to the capital base. Specific measures that might be undertaken as part of this process could range from adding finishing equipment at an existing facility to new strategic initiatives.

— fully utilize the very considerable resources of the worldwide Alcan organization

The overriding objective is to utilize fully the very considerable resources of the worldwide Alcan organization, moulding people and plants into a unified force capable of delivering superior value to customers and shareholders alike on a sustained basis.

ALUMINUM... THE MATERIAL OF CHOICE

— fundamental characteristics of aluminum make it second to none

The long-term well-being of our own organization is, of course, inextricably linked to the long-term health of our industry. Fortunately, the fundamental characteristics of aluminum make it second to none from an engineering, from a metallurgical and, especially, from an environmental standpoint, given the metal's high recyclability and residual value.

The future looks bright for the industry as a whole — and for Alcan in particular. As the most international of the major aluminum companies in an increasingly global marketplace, we are well positioned. Alcan is a leading international producer of rolled products such as the aluminum sheet that is emerging as the universal standard for beverage cans. And our proprietary Aluminum Vehicle Technology puts us in an advantageous position in a fast-growing segment of the aluminum market — the automotive industry.

However, we must not just sit back and take success for granted — there is no room for complacency. We have to develop other new technologies and other new uses for our product, while safeguarding existing markets from encroachment by competing materials. In the process we must make a concerted effort to capitalize on the environmental and economic benefits inherent in aluminum, thereby enhancing its image.

— working relentlessly as an industry to drive down the cost of the metal

Image is important. But if aluminum is indeed to remain the material of choice for the 21st century, it must remain cost-competitive with rival products. That means that the industry must work relentlessly to drive down the cost of the metal. Only by ensuring the cost competitiveness and attractiveness of aluminum over the long run, can the substantial investments required be justified. Throughout this process, Alcan will continue to nurture partnerships with its customers and strive to meet or surpass their expectations.

Another critical issue for our industry concerns impediments to global trade, such as the European Union's (E.U.) 6% tariff on imports of primary aluminum. The tariff is an incongruous policy for a continent that relies on imports of the metal. Not only does it provide unfair protection to Europe's primary aluminum producers, it also discriminates against the semi-fabricating sector, which accounts for 94% of the E.U. aluminum industry's workforce.

ACKNOWLEDGEMENTS

When all is said and done, it is our people that really make the difference in determining whether or not we are successful as a company. On behalf of the Board, we would like to thank all Alcan employees for their hard work and dedication in 1996.

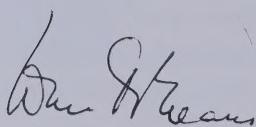
We are especially proud of the courage and generosity with which employees around the world responded to the disastrous flooding that occurred in Quebec's Saguenay - Lac-Saint-Jean region last summer. Their humanitarian efforts on behalf of flood victims, as well as the professionalism displayed in quickly getting our Saguenay facilities up and running normally, demonstrated the values and spirit that are hallmarks of the Alcan family.

Finally, Alcan's Board of Directors broadened its global perspective with the appointment, in July, of a new director, Gerhard Schulmeyer. Mr. Schulmeyer is President and Chief Executive Officer of Siemens Nixdorf Informationssysteme AG, Europe's largest computer company.

LOOKING AHEAD

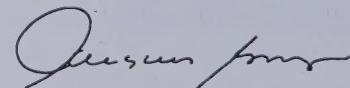
We enter 1997 on an optimistic note. Industry fundamentals are improving, with Western World aluminum demand and prices on the upswing, spurred by increased economic activity and lower inventories in the hands of customers.

Assuming, as expected, that these positive signals translate into increased volumes and better margins, Alcan's results should improve. Of course, we have no intention of simply relying on external factors to bolster our performance. On the contrary, our business strategy in 1997 will focus on maximizing the value of our assets — and returns to our shareholders — by aggressively implementing the actions identified through the full-business-potential initiative. We will also place a premium on identifying appropriate new opportunities for profitable growth.



Dr. John R. Evans
Chairman of the Board

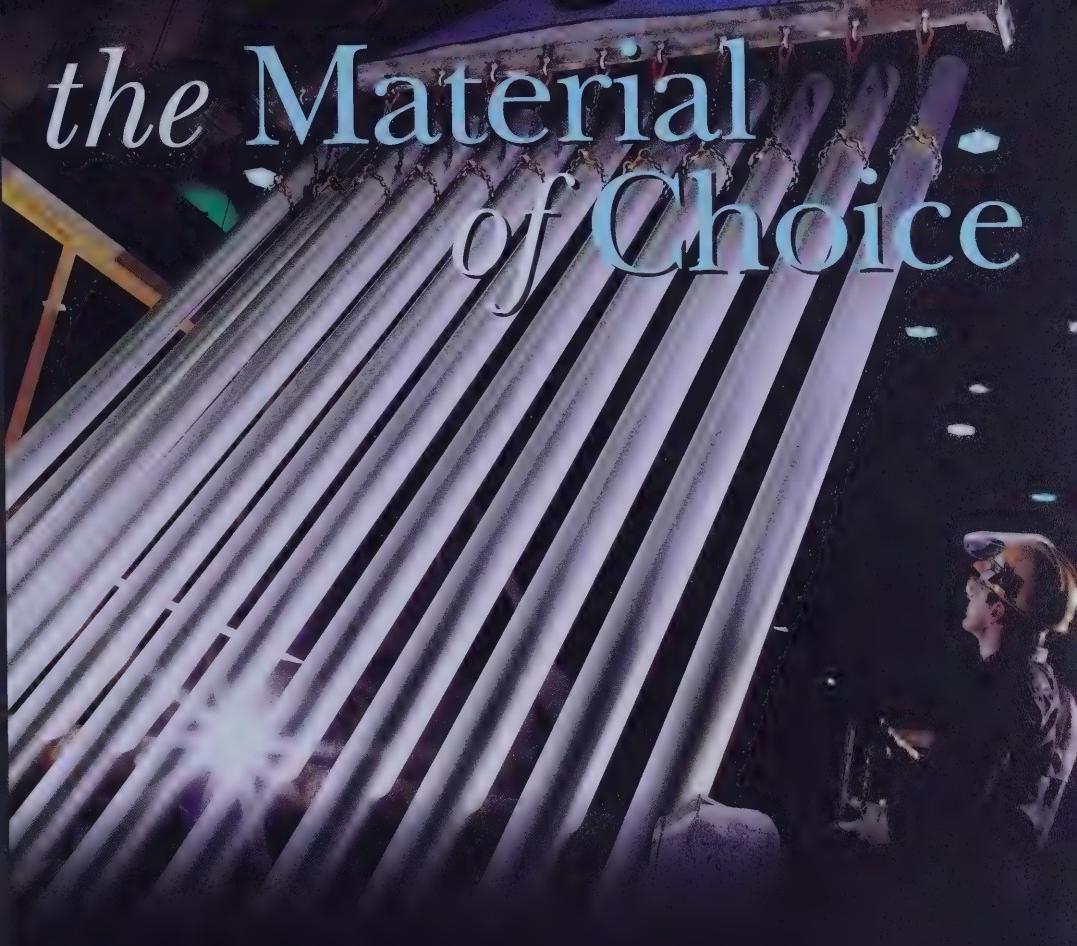
February 13, 1997



Jacques Bougie
President and Chief Executive Officer

ALUMINUM

the Material of Choice



Aluminum is no longer simply the metal of choice, it is now the material of choice for Alcan customers around the globe.

Aluminum is **light**, offering a high **strength-to-weight ratio** so important to industries like transportation, where Alcan is an industry leader in developing new applications. Aluminum's **barrier qualities**, blocking out light, oxygen and moisture, are of great advantage to the food, beverage and pharmaceutical industries.

Equally important are aluminum's **thermal conductivity**, **versatility** and **decorative potential**, especially for packaging and building products.

And its **high electrical conductivity** has long made aluminum a material of choice in the electrical industry.

Environmental responsibility includes **recyclability** — aluminum is usable over and over again without any loss in quality. Recycling preserves resources, conserves energy and, because of aluminum's **high salvage value**, generates funds for recycling programs around the globe.

In the world of aluminum, Alcan is committed to excellence, no matter what the domain — research and technology, raw materials, chemicals, casting ingot, extrusion billet, rolled products, or aluminum/ceramic composite.

Customer Driven

From the early days of the automobile to today's high-speed trains and planes, aluminum has played an important role in advancing the transportation industry. Aluminum is now heralded as the material of choice, as it allows designers to successfully respond to environmental challenges without sacrificing comfort, safety, performance or design.

The automobile industry is already the largest consumer of aluminum in the world — roughly 4 million tonnes per year — even though it is only recently that aluminum has been used in automotive skin, closure and structure applications.

Over the past four years alone, the use of aluminum in automobiles has jumped by 35 per cent — driven by the need to produce vehicles that offer increased safety and fuel economy without sacrificing performance and comfort. In the U.S., the federal government has challenged automakers with its Partnership for a New Generation of Vehicles (PNGV) program

"In order to meet our mass-reduction targets in Project 2000, we, at Ford, are making extensive use of aluminum in the body structure, exterior body panels, chassis and drivetrain components. A critical goal in this program is to make significant progress towards realizing the full value potential of aluminum in an affordable, high-volume vehicle."

Robert Mull

Director, Partnership for
a New Generation of Vehicles,
Ford Motor Company





General Motors built the EV1 — the revolutionary electric car — using Alcan's Aluminum Vehicle Technology. The all-aluminum body structure accounts for only 10 per cent of the car's total curb weight, contributing significantly to its energy management, safety, performance and environmental goals.

which promises a car weighing less than 2,000 pounds that operates at an 80-miles-per-gallon fuel efficiency. Automakers have turned to aluminum to meet this challenge. With help from aluminum producers, they are developing technological advances to facilitate the use of aluminum in both limited and mass production vehicles.

Alcan's Aluminum Vehicle Technology (AVT) already enables auto manufacturers to economically introduce aluminum into the traditional sheet stamping process. Automakers such as Jaguar, Ford and GM all have vehicles on the road that were built using Alcan's AVT system.

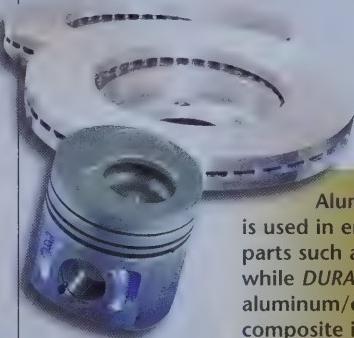
Aluminum's high strength-to-weight ratio, corrosion resistance, and recyclability are other reasons why automotive designers are choosing aluminum.

Photo at left: Alcan and Ford's long-term relationship continues to explore and introduce aluminum as a material of choice in the next generation of automobiles. Donald Macmillan (left), Vice President and General Manager, Automotive Products, Alcan Rolled Products Company, discusses aluminum sheet stamping applications with Robert Mull, Director of the PNGV program at the Ford Motor Company — a world leader in integrating aluminum into its vehicles.

The use of aluminum in cars is expected to double over the next 10 years.

Alcan offers the technology and the metal — automotive sheet or extrusion billet for automotive structures; sheet for exterior body panels; and aluminum/ceramic composite for brake parts. Aluminum is also used in fin stock for heat exchanger components as well as engine parts such as Alcan's high performance pistons made from advanced alloys for the latest low-emission engines.

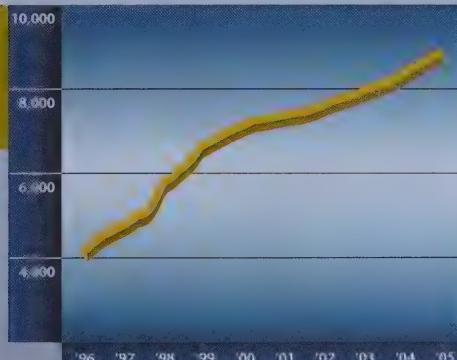
Whether it be passenger cars, high speed trains, planes, or ships and coastal ferries, Alcan is committed to solidifying aluminum's position as the new material of choice for the next generation of transportation industry needs.



Aluminum is used in engine parts such as pistons while DURALCAN aluminum/ceramic composite is used for brake rotors.

Global Market Growth Forecast of Aluminum in Automobiles

(thousands of tonnes)



Source: Industry forecasts

Wrapping the Market



From beverage cans to foil products, aluminum is the material of choice for a growing segment of the packaging market. Not only does aluminum provide superior barrier qualities, it also offers graphic design possibilities as well as being economical, convenient and recyclable.

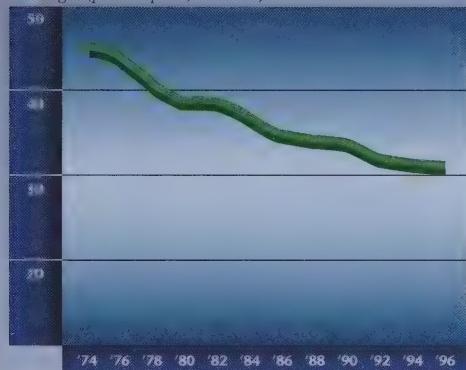
"Aluminum's unique properties — light-weight formability, absolute moisture barrier, ability to withstand high temperatures including direct flame applications, and the ability to be coated and embossed for functional and decorative purposes — combine superbly to create a totally effective and economical food service system."

Richard L. Wambold
Executive Vice President,
Specialty and Consumer Products
Tenneco Packaging



Weight Reduction of the Aluminum Can and Lid

net weight (pounds per 1,000 cans)



Source: Can Manufacturers Institute and Aluminum Association

Achieving a 30% weight reduction is quite a technological and engineering feat! It has helped keep costs down and aluminum competitive in the marketplace as well as reducing energy consumption.



From working with schools to operating scrap collection facilities, Alcan is dedicated to conserving natural resources and saving energy through the recycling of aluminum at facilities such as Latchford Locks in the U.K.

By far the best-known aluminum package is the beverage can. On a worldwide basis, 80 per cent of beverage cans are made of aluminum. In North America, where the aluminum can first appeared on grocery store shelves in 1968, an incredible 290 million aluminum cans are now used every day, 175 million of which are recycled!

Aluminum is considered as a material of choice in Europe, thanks to Alcan's active involvement in promoting and initiating recycling programs. In the United Kingdom, Alcan has established its own used beverage can recovery network, which is a key reason for the dramatic increase in consumer acceptance of aluminum beverage containers. In South America too, the aluminum beverage can is enjoying rapid acceptance, with Alcan playing a prominent role.

With a worldwide recycling rate in excess of 55 per cent, aluminum cans are, by far, the most recycled beverage container of any kind. Beverage producers commit to aluminum not only because of its packaging benefits, but also because of its

high salvage value, which contributes to the success of many local recycling programs. As recycling efforts take hold in newer markets, the recycling rate will increase, thus further protecting natural resources for future generations.

Aluminum's excellent barrier qualities, recyclability and design benefits have also contributed to its success in other areas of the packaging business. Alcan research has led to the development of a variety of aluminum lidding systems, blister packs, foil packages and semi-rigid containers for use in the food and pharmaceutical sectors.

As the world's leading rolled products producer, with global representation, Alcan's dedication to supplying aluminum for innovative packaging applications is second to none.



Aluminum foil packaging is economical, convenient and recyclable. Manufacturers also find it ideal for innovative design and decoration for a variety of aluminum lidding systems, blister packs and semi-rigid containers for use in the food and pharmaceutical sectors.

Photo at left: Ian Hewett (left), Vice President and General Manager of Alcan's Light Gauge Products business unit, reviews the many benefits of aluminum with Tenneco Packaging's Richard L. Wambold, Executive Vice President, Specialty and Consumer Products.

Building for Tomorrow

From office towers and electrical cable to window frames and ladders, aluminum is the material of choice for architects, engineers and designers around the globe.

The advantages of aluminum building products are well known in North America and Europe. Now, those advantages are also being put to the test in fast-growing markets such as the Asia-Pacific region. Architects

and designers are finding that aluminum's high strength-to-weight ratio, versatility, durability and decorative potential offer unique advantages over alternative materials.

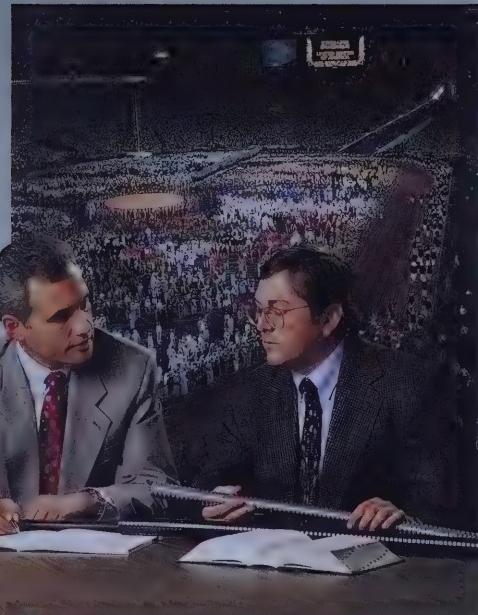
Aluminum reduces the load demand on foundations in both industrial and residential buildings; it can be anodized or painted, meeting designers' aesthetic needs; and, when extruded, aluminum offers an almost unlimited range of profiles and shapes.

As labour costs rise, designers and builders are also paying closer attention to installation costs and maintenance requirements over the total life cycle of a project. Today, aluminum is increasingly selected as the material of choice in roadway guard rails, wind breaks and standards for lighting and signs.

"Following the architect's specifications, I carried out this project with Technal — the leading name in aluminum systems. I appreciate the quality and reliability of its products and the help from its design office which created specific and innovative aluminum extrusions, meeting the architect's requirements."

Juge Boulogne
President and Managing
Director
Société Juge Boulogne
Technal Authorized Dealer





The electrical contracting firm of Inglett & Stubbs chose STABILOY as the main feeder cables for the 1996 Olympic Stadium in Atlanta, Georgia. Tom Sapitowicz (right), Project Manager with Inglett & Stubbs, discusses the advantages of STABILOY cable with Jerry Uvira, Alcan Cable's Director of Distributor Marketing.

Aluminum, due to its high electrical conductivity, has been part of the electrical industry since the beginning of this century.

Today, the use of aluminum is on the rise, not only for its intrinsic benefits, but also because of the value-added enhancements such as those found in Alcan electrical cable.

Innovations such as compact stranding, high-strength alloys, self-clamping conductors and STABILOY conductors have all been developed by Alcan with customers' needs in mind. Because of such technological advances, designers, engineers and

architects are turning to Alcan's electrical cable to minimize installation and maintenance costs over the life span of a project. When electrical system costs are compared over the short and long term, the benefits of aluminum cable become readily apparent.

Alcan is recognized as a world leader in aluminum alloy building wire and low-voltage insulation materials — its electrical cable is found, as the material of choice, in major projects around the globe.

Photo at left:
Michel Traullé (left),
Sales Manager for Technal
in France — Alcan France,
and Juge Boulogne,
President and Managing
Director, of Société Juge
Boulogne, examine the
plans for the aluminum
building system of the SCI
Alliance Habitat project
in France.

Alcan is a world leader in light-weight aluminum building wire and low-voltage insulation materials. STABILOY building wires are known for their superior flexibility, strength retention and thermal stability.





Regular training on proper use of personal protective equipment is a key to ensuring a healthy, injury-free work place.

Above, occupational health nurse Marie Loiselle reviews procedures, at Beauharnois Works, for respiratory equipment with Pierre Bergevin, Myriam Brisson, Richard Saint-Denis, and Didier Chapron (standing).

Partners for Progress

Zero work-related injuries and illnesses are achievable objectives.

Continual environmental improvement of products and processes.

Community partnerships built on communication and involvement.

After floods devastated Quebec's Saguenay—Lac-Saint-Jean region, Alcan people were instrumental in restoring the community. Alcan rebuilt bridges, loaned equipment and encouraged employee volunteers. On the initiative of employees worldwide, the Company created a relief fund and matched their donations, resulting in a total Alcan contribution of CAN\$1.3 million.



HEALTH AND SAFETY POLICY

It is Alcan Aluminium Limited's commitment to safeguard the health and safety of all its employees by providing a healthy and safe work environment and by managing its operations with the conviction that all occupational injuries and illnesses are preventable.

Alcan's management believes that health and safety are paramount criteria of operational excellence. Indeed, the mindset of zero work-related injuries and illnesses is the ultimate goal of every employee in all our operations.

HEALTH AND SAFETY FROM THE GROUND UP

Alcan installations achieved new milestones in 1996 for occupational health and safety. Many Alcan facilities went the entire year without a lost-time accident and are still improving upon those records.

Alcan's success in health and safety relies on individual employee and plant initiatives. These are an integral part of both long-range planning and day-to-day operations. As outlined in the new global health and safety policy, the elimination of work-related injuries and illnesses is the ultimate objective at all Alcan locations.

This policy was developed with worldwide input, and line managers have the responsibility for ensuring the development of locally-targeted programs.

ENVIRONMENTAL IMPROVEMENT FOR ALL LOCATIONS

Alcan recognizes that environmental responsibility is synonymous with good business. Air emissions, water effluents, resource management and waste reduction are all areas where Alcan has worked to ensure environmental improvement.

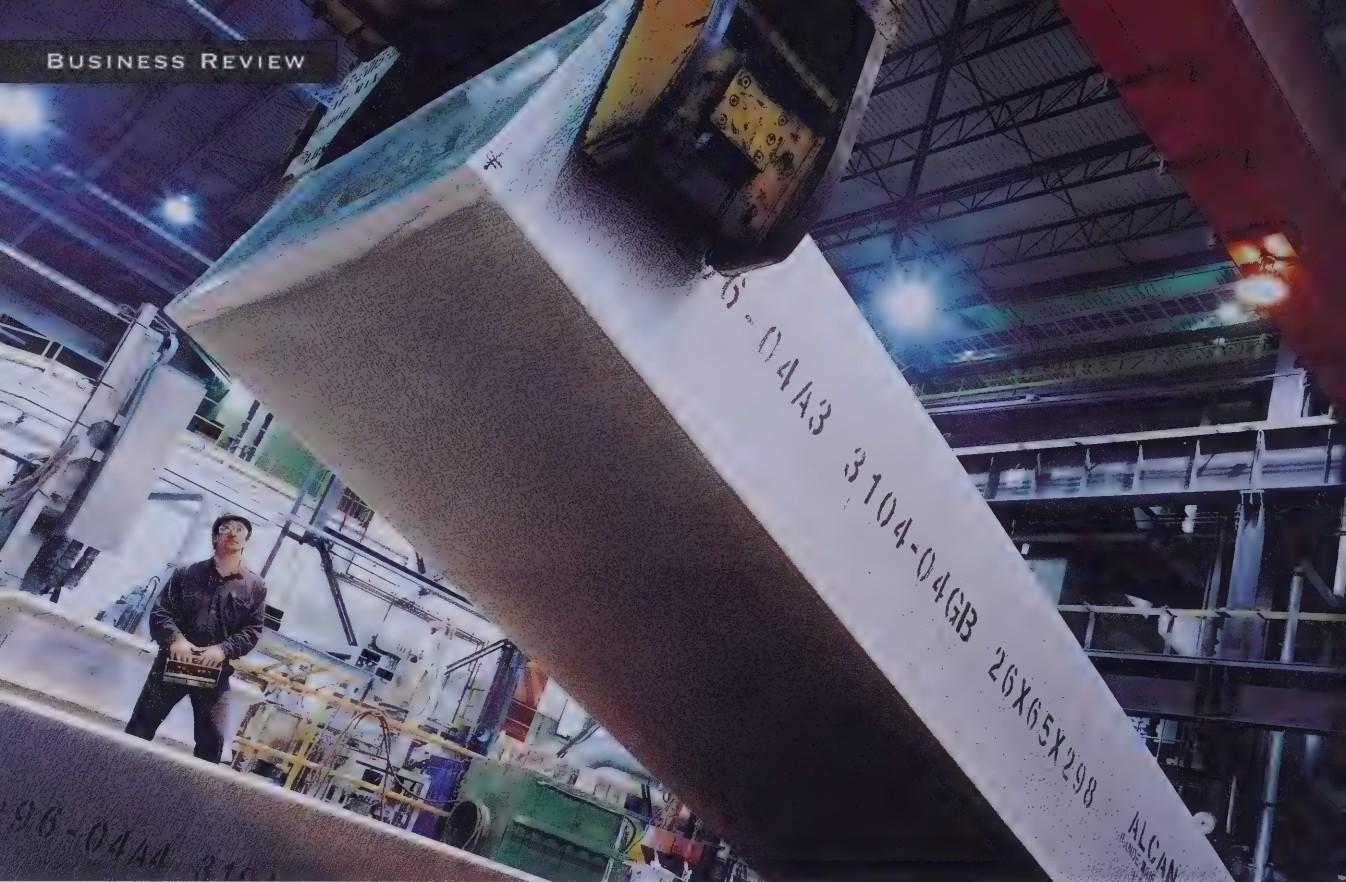
In 1996, Alcan introduced a global Environmental Management System (EMS) that focuses on processes. Several Alcan facilities have already achieved the ISO 14001 EMS standard sanctioned by the International Organization for Standardization.

Complementing EMS is product stewardship, an initiative to ensure that Alcan's *product*, in every stage of its life cycle, makes the most of the inherent value of aluminum's properties, including its recyclability. Effective product stewardship starts with design; it is at this point that environmental features can be built right into a product. Alcan is committed to working with suppliers and customers to design and manufacture products that maximize environmental value.

COMMUNITY PARTNERSHIPS IN PROGRESS

Whether it's the restoration of exhausted mine sites or the voluntary sponsorships of local events, Alcan supports the communities in which it operates.

If a natural disaster strikes, Alcan people are among the first to lend a hand. Alcan is committed to long-term relationships with its communities; Alcan employees live, work and often retire in these communities. This community commitment was especially visible last summer, when Quebec's Saguenay—Lac-Saint-Jean region was devastated by severe flooding with damages totalling more than CAN\$600 million. Alcan assisted on all fronts.



1996 – A Year of Consolidation

Surpassed our
debt:equity ratio
target.

Restructured
holdings in Japan
and the rest
of Asia.

Completed
divestment program
of non-strategic
businesses.

Photo at left:
Alcan's attention to meeting customer needs for quality sheet ingot and extrusion billet products is essential for continued growth.

WORLD MARKET REVIEW

Primary Aluminum

Following two years of good demand growth, the aluminum industry entered 1996 on a soft footing. Slowing business conditions in North America and Europe, together with customer inventory reductions, saw primary aluminum demand fall off sharply in the latter stages of 1995. While demand recovered steadily during the course of 1996 in most countries, it continued to be hampered by poor business conditions in Europe. In the United States and Japan, aluminum markets registered positive growth in the second half of the year. For the year as a whole, Western World demand is estimated to have declined by 1%, to 17.7 million tonnes (Mt), the first decline in 14 years.

Western World primary aluminum production increased for the second year in a row, up 6% in 1996 to 15.5 Mt. The mid-year start-up of a new smelter in South Africa accounted for most of the increase. At year-end, 860 thousand tonnes (kt), or 5%, of Western World smelter capacity remained idled. Smelter expansions in 1997 are expected to add about 400 kt per year (kt/y) to industry capacity.

Russian exports of aluminum grew by 18% in 1996 to a record level of 2.5 Mt, made possible by a 4% increase in aluminum production and a further decline in domestic usage. However, greater imports of aluminum by China absorbed much of the additional metal coming from Russia. While growth in Chinese aluminum demand

Western World Primary Aluminum Supply and Demand

- Production plus imports from CIS
- Shipments (seasonally adjusted)



Demand recovered steadily during 1996, but for the year as a whole was down 1%. While this was the first decline in 14 years, the aluminum market remained in reasonable balance.

Total Aluminum Inventories and Ingot Prices

- Total inventories (IPAI, LME)
- LME three-month prices



Following two years of sharp decline, inventory levels stabilized in 1996. Prices, however, remained under pressure throughout most of the year, recovering somewhat towards year-end.

continues to be strong, Chinese primary aluminum output is constrained by power availability.

Following two years of decline, inventories held by aluminum producers and in London Metal Exchange (LME) warehouses stabilized. At year-end, inventories totalled 4.0 Mt, down 100 kt from the end of 1995.

Ingot prices trended down through the first ten months of 1996. Aluminum opened the year at \$1,706 per tonne (/t), the high for 1996, and hit a low of \$1,305/t in October. During the last two months of the year, prices staged a rally, finishing 1996 at \$1,546/t. The average price for 1996 was \$1,536/t, well below the average for 1995 of \$1,830/t and only slightly above the average of \$1,500/t in 1994.

Western World Consumption Versus Alcan Sales

In 1996, it is estimated that Western World aluminum consumption was 23.9 Mt, three-quarters of which was supplied from primary aluminum and the remainder from recycled metal. This represented a slight decline from the 1995 level.

Divestments of non-strategic assets, coupled with difficult market conditions, resulted in an overall decline in Alcan's volumes and revenues for the year.

Transportation, the largest market for aluminum, consumed 6.1 Mt of aluminum in 1996, unchanged from 1995. This reflected a 2% decline in the U.S., principally due to a strike by General Motors workers, offset by modest growth elsewhere in the Western World. Alcan's sales revenues from this market fell 18%, reflecting a 10% volume decline due to the sale of businesses in the U.K. and to lower prices.

The containers and packaging market, which used 4.7 Mt of aluminum in 1996, declined by 3% in 1996 mainly due to a 4% fall in can sheet demand following increases in 1994 and 1995. Sharp declines in North America and Europe, reflecting inventory adjustments by customers, continued down-gauging and inroads by competing materials, were offset in part by strong growth in South America and Asia. Alcan's shipments were

3% lower than in 1995, in line with the market. Revenues, however, were down 14%, reflecting lower prices.

Building and construction markets recovered in 1996, growing a little over 1% to 4.7 Mt. Growth came primarily from North America, while Europe declined with the end of the German reunification boom. Alcan's sales revenues in this market were down 26% from 1995 due to lower metal prices and an 18% volume reduction, reflecting the sale of businesses in the U.K. and Brazil.

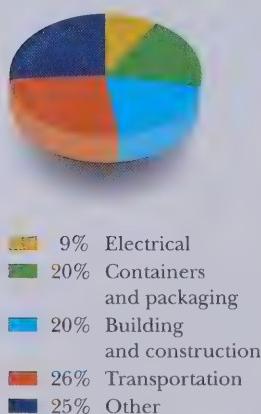
Aluminum consumption in the electrical market was down marginally from 1995, to 2.1 Mt, largely reflecting lower infrastructure investments in Latin America and Asia. Alcan's sales volumes and revenues were flat after taking account of divested businesses.

Other markets include machinery and equipment, durable goods, and several smaller end-use markets. In aggregate, aluminum consumption in these markets was unchanged from 1995 reflecting slow economic activity. Alcan's sales revenues in other markets were down 28% due to the disposal of businesses. However, the Company's alumina sales, also included in this category, were higher than in 1995.

REVIEW OF ALCAN'S OPERATIONS

Starting with 1996, Alcan is reporting selected information by major product sector, viewing each sector on a stand-alone basis. Transactions between sectors are conducted on an arm's length basis and reflect market-related prices. Thus, profit on all alumina produced by the Company, whether sold to third parties or used in the Company's smelters, is included in the raw materials and chemicals sector. Similarly, income from primary metal operations is principally profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Income from fabricated products businesses represents only the fabricating profit from rolled products and downstream businesses. Product sector information is presented in note 21 to the financial statements.

1996 Western World Aluminum Consumption by End-Use Market (23.9 million tonnes)

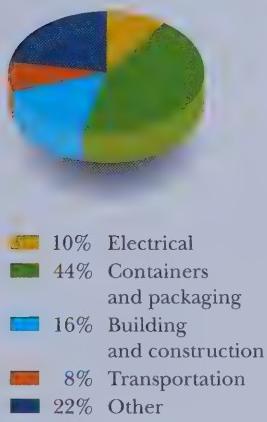


Raw Materials and Chemicals Operations

Higher alumina production in 1996 was not sufficient to offset the impact of lower alumina prices. As a result, profits for the sector were down sharply from the previous year. Prices for third-party sales of alumina were down on average 3% from 1995, influenced by weaker metal prices.

(millions of US\$)	1996	1995
Sales and operating revenues		
Third parties	529	618
Intersector	507	555
Operating income	95	203
Shipments – third parties (kt)		
Alumina	1,585	1,325
Alumina hydrate production (kt)	4,536	4,209

**Alcan's 1996
Fabricated and
Non-Aluminum
Sales by Market
(US\$5.8 billion)**



Unit production costs increased in 1996 mainly due to higher oil prices and lower operating rates at the Vaudreuil alumina complex in Quebec as described below.

Alumina

With productivity gains in recent years, the sale of Alcan Australia in 1994, and the acquisition of full ownership of the Aughinish, Ireland, refinery in 1995, Alcan has become a major supplier of alumina to third parties. The Company currently has approximately 1.5 Mt/y of alumina capacity surplus to its internal requirements.

Alumina hydrate production hit 4.5 Mt in 1996, an 8% increase over 1995 and the highest level ever for the Company. New production records were set in Australia, Ireland and Jamaica.

In July, severe flooding in the Saguenay-Lac-Saint-Jean region of Quebec destroyed a water pumping station that supplied the Vaudreuil alumina complex. As a consequence, operations were temporarily disrupted, leading to the loss of approximately 70 kt of alumina production. The financial impact of this loss was fully covered by insurance.

Chemicals

The specialty chemicals group posted improved performance in 1996. In Europe, where markets suffer from overcapacity and low economic activity, Alcan's operations made steady progress on increasing their share of the value-added chemicals market. In North America, operations benefited from steady demand and good prices.

Bauxite

Through subsidiaries and related companies, Alcan has approximately 330 Mt of demonstrated bauxite reserves, sufficient to meet its needs for the next 30 years. The Company also has access to additional resources to meet its needs beyond this period.

During 1996, several initiatives were launched aimed at lowering the Company's bauxite costs. The most important of these initiatives was a detailed feasibility study on the development of the Company's Ely bauxite reserves in Northern Queensland, Australia. A decision on the project is expected in the second half of 1997. Bauxite from this new source would replace third-party purchases and would be used to supply alumina operations in Australia and Ireland.

Primary Metal Operations

(millions of US\$)	1996	1995
Sales and operating revenues		
Third parties	1,472	1,612
Intersector	1,653	2,286
Operating income	519	701
Shipments (kt)		
Primary aluminum		
Third parties	592	549
Intersector	1,008	1,193
Primary production(kt)	1,407	1,278

Operating profits for the primary metal sector were down in 1996 as the benefit of higher production was more than offset by the impact of lower metal prices. Profits for the sector arise not only from third-party sales but also from the transfer of metal to the Company's fabricating operations at market-related prices. The average realized price on third-party sales of primary ingot was \$1,721 per tonne in 1996 versus \$2,057 per tonne in 1995.

Alumina from Alcan's raw materials operations is transferred to the Company's smelters at market-related prices. Prices for alumina were, on average, lower in 1996 than in 1995. Smelter conversion costs were little changed from the previous year, which had been adversely affected by a strike in Quebec. Removing the impact of the strike from 1995 costs, conversion costs were \$44/t higher in 1996, reflecting higher anode, maintenance and overhead costs. Alcan's average production cost of primary aluminum (mainly in the form of extrusion billet and sheet ingot), including alumina at market prices, was \$1,328/t in 1996 versus \$1,336/t in 1995.

Of Alcan's primary ingot sales to third parties, nearly 85% is in the form of value-added products, mainly extrusion billet. Shipments of value-added ingot were up 6% in 1996, with volume gains seen in North America and Japan.

Alcan purchases ingot largely for logistical reasons in order to balance its metal supply system. For example, by purchasing ingot in Europe, where the Company is short of metal, Alcan is able to avoid the freight and duty costs associated with moving metal from its North American smelters to fabricating plants in Europe. However, this results in an equivalent quantity of metal being available for sale from the smelters in North America. In 1996, total purchases of aluminum were down from the levels of the previous two years largely due to the impact of business disposals and increased primary production.

Primary Production

Since 1991, Alcan's worldwide smelter system has operated at less than its full capacity, primarily due to temporary closures made in response to weak industry fundamentals.

Three of Alcan's smelters in Quebec, which had been affected by a 10-day strike in October 1995, returned to full operation early in 1996. Also to compensate for ingot production lost due to the strike, the Company restarted about 60 kt/y of idled capacity in Quebec, British Columbia and the U.K., which had been part of previous temporary shut downs. As a result, primary production for 1996 was 129 kt higher than in the previous year, which had been negatively impacted by the strike to the extent of 75 kt.

Alcan continues to have approximately 160 kt/y, or 10%, of its total rated smelter capacity temporarily idled. This capacity will be restarted when warranted by industry conditions.

In the U.K., a two-year program is being undertaken to upgrade and refurbish the closed potline at the Lynemouth smelter, with a view to restoring the plant to full operation when market conditions allow.

In Quebec, Alcan commenced environmental reviews and community consultations for a proposed new 350-kt/y smelter.

The plant would be built in Alma, Quebec, where the Company's existing 73-kt/y Isle-Maligne smelter would be shut down.

In July 1996, Alcan reached a three-year agreement with unionized workers at its Kitimat, B.C., smelter. In 1995, the Company signed a three-year collective agreement with unionized workers in Quebec and a four-year labour agreement with employees at the Sebree, Kentucky, smelter.

Secondary Production

In addition to its used beverage can recycling activities, Alcan recycles other forms of aluminum scrap at three secondary smelters in Italy, the U.K. and the U.S. that have a combined capacity of 152 kt/y. These facilities produce foundry alloys mainly for the automotive market. The Company sold 119 kt of such products in 1996 versus 124 kt in 1995.

The Company sold its 70-kt/y Guelph, Ontario, secondary smelter towards the end of 1996.

Fabricated Products Operations

(millions of US\$)	1996	1995
Sales and operating revenues	5,593	6,983
Operating income	127	346
Shipments (kt)	1,539	1,733
Fabrication of customer-owned metal	258	225
Total volume	1,797	1,958

Alcan's fabricated products volumes in 1996 were 161 kt lower than in the previous year, mainly reflecting the divestment of non-strategic businesses. While business conditions were generally slow in 1996, volumes

from ongoing businesses were about even with those of the previous year. In 1995, Alcan's total fabricated products volumes matched the record level of close to 2 Mt set in 1994. Adjusting for the impact of divestments made over the last three years, fabricated products volumes have risen by 36% since 1993.

The operating profit of \$127 million in 1996 was \$219 million lower than in 1995. In addition to the impact of lower prices for some products, profits were reduced due to expenses associated with the expansion of rolled products operations in Europe. In North America, margins for rolled products were stable during the year, reflecting the continuation of "metal plus conversion fee" pricing for the majority of products.

Rolled Products

As a result of expansions undertaken in recent years, Alcan is now the largest producer of rolled aluminum products in the world, with a strong base of operations in North America, Europe and South America. Together with products fabricated from customer-owned metal, total rolled products volumes were 1,562 kt in 1996, the same as in 1995. Rolled products sales declined to \$3,645 million in 1996 from \$3,946 million in 1995 mainly due to lower prices. Shipments of rolled products were 1,304 kt as compared to 1,337 kt in 1995. The average realized price on shipments in 1996 was \$2,797/t, down from \$2,950/t in 1995.

Aluminum Shipments and Purchases

- Ingot products*
- Fabricated products**
- Total purchases

*Includes primary and secondary ingot and scrap.

**Includes products fabricated from customer-owned metal.



Purchases of aluminum decreased in 1996 due to increased primary ingot production and the divestment of non-strategic downstream businesses.

In 1996, North American rolled products demand softened from the previous year's robust level. In the beverage can sheet market, an important market for both the industry and Alcan, demand was affected by customer inventory reductions and the impact of further downgauging. While shipments of finished cans by can manufacturers were up 1% over 1995, aluminum industry shipments of can sheet were down an estimated 6%. Alcan's shipments, while reflecting the general state of the market, were down to a lesser extent. Alcan's North American exports of can sheet were also lower in 1996, reflecting competition from new capacity. In the distributor sheet market, shipments were adversely affected by inventory adjustments by customers, as well as lacklustre demand. Shipments of building sheet and light-gauge products, such as fin-stock and foil container stock, were higher in 1996.

In Europe, consumption of rolled products was down 4% on 1995 levels, a result of weak underlying demand and destocking by customers. The beverage can sheet market was particularly hard hit by lower demand for canned drinks and the conversion of some beverage can lines in the U.K. and Italy from aluminum to steel. Building products was the other area of depressed demand during the year. For Alcan, shipments were down for can sheet, painted sheet and foil stock, while increases were seen in plain and heavy-gauge sheet. Production in 1996 averaged a similar level to the previous year, with few rolling plants working at capacity during the period. In Germany, there was considerable unused capacity at the Norf (50%-owned) and Nachterstedt rolling mills. At the latter facility, the effective capacity increased near year-end with the completion of a modernization program. With a recovery in demand towards the end of 1996, most of Alcan's other rolled products facilities in Europe started operating at close to full capacity. A new marketing organization was put in place in the second half of 1996 to coordinate Alcan's European sales and the development of markets.

In South America, growth in rolled products demand continued to be led by beverage can sheet. Alcan's sheet production increased 30% in 1996 with the expansion of the Pinda rolling mill in Brazil in the previous year. Can sheet production was up 70%, while foil output increased 10%. Further increases in output are planned over the next few years.

Automotive

During 1996, the Company made significant progress in growing its North American automotive sheet business. Alcan's Aluminum Vehicle Technology (AVT) reached auto dealer showrooms in December in the form of General Motor's EV1, the first commercially available electric passenger car and the first North American production vehicle to feature an all-aluminum structure. The EV1 is the centerpiece of GM's contribution to the PNGV (Partnership for a New Generation of Vehicles) program, a joint auto industry and U.S. government initiative aimed at the development of fuel-efficient and environment-friendly cars. Alcan's AVT has also been chosen by Ford as the structural technology for its PNGV activities. Ford is currently applying the technology to its new Class 8 truck cab, the Aeromax. Through partnerships with carmakers, Alcan's AVT has evolved into a fully validated system for the production of high-volume aluminum vehicles on existing production lines.

During the year, progress was made towards establishing Alcan's proprietary exterior body panel alloy as the North American standard. Either directly from Alcan, or under license, the 6111 alloy is being used in over 1.6 million new vehicles. Alcan's latest closure application, the hood of the Lincoln Mark VIII, made its showroom debut in November. This was the first application developed using Alcan's full-part modeling capability, reducing cost and time to market. Alcan has an extensive and growing program of closure and other applications for high-volume vehicles scheduled for production over the balance of the decade.

Progress was also made in broadening the automotive applications for Alcan's metal matrix composite material, *DURALCAN*. Production contracts were signed with Chrysler and GM for the supply of *DURALCAN* material for brake rotors and driveshaft applications.

Other Fabricated Products

Over the past three years, Alcan has divested itself of a number of non-strategic businesses, mostly involved in the downstream fabrication of aluminum products. Proceeds from business disposals totalled \$1.2 billion.

Reflecting the impact of divestments, sales revenues and shipments from downstream businesses have been declining in recent years. In 1996, shipments of other fabricated products were 235 kt, down from 396 kt in the previous year. Sales revenues declined to \$1,404 million from \$2,219 million in 1995. The average realized price on sales of other fabricated products was \$5,946/t in 1996 versus \$5,611/t in 1995.

In North America, results from Alcan's cable business improved. Good growth was seen in building wire markets, while demand for overhead transmission cable and service entrance cable remained stable.

In Europe, the building products market continued to be weak in 1996. However, Alcan's architectural products business, based in France, saw its performance improve through successful sales and marketing and cost reduction efforts.

Recycling Activities

In the U.S., Alcan achieved record output at its used beverage can (UBC) recycling plants. Recycling plants in the states of Kentucky, Georgia and New York processed more than 17 billion used aluminum beverage cans during 1996, or approximately 12% more than 1995's record level. Nearly 2 billion of these UBCs were collected by Alcan in Canada, which represents roughly 60% of all aluminum cans recycled in the country.

Alcan's recycling operations in the U.K. set a new record for general-purpose sheet ingot production. However, can sheet ingot output was lower due to lower demand. While the total volume of UBCs collected in the U.K. fell, the overall recycling rate for aluminum cans continued to rise.

Alcan sold 99 kt of manufacturing scrap in 1996 versus 128 kt in 1995.

GEOGRAPHIC REVIEW

In all geographic regions, with the exception of South America, Alcan suffered declines in earnings in 1996. Slow economic activity and customer destocking, which began in the second half of 1995, continued into the first half of 1996. Towards the end of the year, however, most areas were showing improvement.

The shipment data provided in this Geographic Review is classified according to third-party customer location.

Canada

(millions of US\$)	1996	1995	1994
Net income*	175	216	16
Net income excluding special items*	188	231	32
Shipments (kt)			
Ingot products	120	120	105
Fabricated products	120	112	152

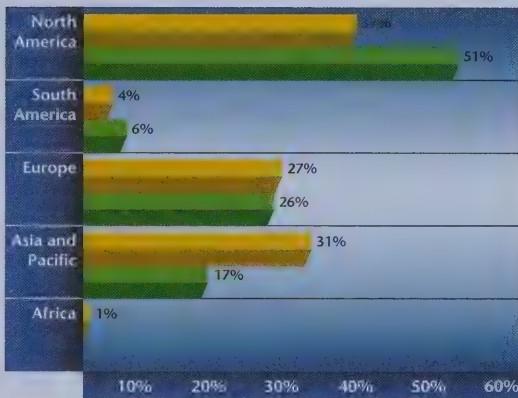
* Net income in 1995 is before an extraordinary loss. Special items include: 1996 rationalization expenses and loss on early retirement of debt, 1995 loss on early retirement of debt, 1994 losses on sale of businesses and rationalization expenses.

Lower ingot prices in 1996 resulted in earnings from Canadian operations falling below the previous year's level, which had been adversely affected to the extent of \$70 million due to a strike in Quebec. The 1996 result, however, remained well above that of 1994 when primary aluminum prices began their recovery.

Domestic aluminum consumption declined by 1% in 1996, with good growth in the building and transportation markets offset by a sharp decline in beverage can sheet demand. Alcan's shipments in Canada were higher in 1996 due to increased sales of can sheet. In 1995, the decline in Alcan's shipments was due to the impact of businesses sold in 1994. Alcan continues to maintain its leading market position in the household foil and industrial container markets.

1996 Aluminum Shipments by Region

- Western World consumption
- Alcan Group shipments (includes Alcan's share of related companies)



Alcan is the most international aluminum company with operations and sales offices in over 30 countries. This is an important competitive advantage in an increasingly global market place.

During 1996, a project team was established to evaluate the construction of a 350-kt/y smelter in Quebec. Environmental impact studies have been initiated, and an agreement in principle was reached with Hydro-Quebec that ensures that the Company will have access to sufficient power at a competitive cost. A final decision on this project is not expected to be made before late 1997 – early 1998.

United States

(millions of US\$)	1996	1995	1994
Net income	70	123	16
Net income excluding special items*	72	99	22
Shipments (kt)**			
Ingot products	380	380	421
Fabricated products	874	918	960

* Special items include: 1996 loss on sale of business and tax write-backs, 1995 gain on sale of a business, 1994 net loss on sale of businesses and rationalization expenses.
** Includes fabrication of customer-owned metal.

The strong recovery in net income experienced in 1995 was moderated in 1996. Industry rolled products shipments declined by some 5%, and Alcan's shipments were similarly affected. This volume reduction, together with generally lower realizations, meant that net income declined but remained above the 1994 level. In the beverage can sheet market the industry volume shortfall was some 6%, reflecting some reversal of earlier inventory build-ups by customers and the continuing impact of

downdauging. The Company's shipments of can sheet were down less than the overall market. A similar pattern was seen in the distributor sheet market, while Alcan's shipments of building sheet were higher than in 1995.

South America

(millions of US\$)	1996	1995	1994
Net income	42	15	9
Net income excluding special items*	29	15	17
Shipments (kt)			
Ingot products	21	13	4
Fabricated products	153	133	116

* Special items include: 1996 gain on sale of business, 1994 rationalization expenses.

Alcan's operations in South America further consolidated their return to profitability in 1996 with net income of \$29 million, excluding an after-tax gain of \$13 million on the sale of a non-core business. Brazil's economy continued to stabilize with slower, but still positive, growth and most notably, single-digit inflation for the first time in almost 40 years. While domestic aluminum demand increased by 11%, reflecting a wider distribution of purchasing power, prices and margins came under pressure from the lower-inflation environment. A major element in the growth in demand for aluminum was beverage can sheet, where consumption increased 37%. A further phase of expansion of Alcan's Pinda rolling mill in Brazil is under consideration in order

to increase can sheet capacity. Alcan's shipments in South America were higher, despite the divestment of businesses, with improved volumes from continuing businesses and increased ingot sales to former Alcan operations.

Europe

(millions of US\$)	1996	1995	1994
Net income	21	161	76
Net income excluding special items*	26	161	87
Shipments (kt)**			
Ingot products	89	95	63
Fabricated products	620	756	675

* Special items include: 1996 rationalization expenses and tax write-backs, 1994 rationalization expenses.
** Includes fabrication of customer-owned metal.

Net income from European operations was sharply lower in 1996 largely reflecting difficult market conditions for rolled products, lower alumina prices and the sale of downstream businesses in the U.K. European rolled products demand fell just over 4% from the 1995 level as a result of weak underlying demand and customer destocking. This, coupled with falling metal prices and excess rolling capacity in Europe, resulted in intense price competition and lower margins. Can sheet shipments were particularly badly hit due to weaker demand for canned drinks and the conversion of some can-making lines in the U.K. and Italy from aluminum to steel. Some recovery in demand was felt towards the end of the year as the destocking process appeared to be complete. The reduction in shipments in 1996 is primarily due to the sale of downstream businesses in the U.K.

In the U.K., net income was down from the 1995 record level reflecting the sale of downstream businesses early in the year, lower prices and reduced rolled products margins. Primary ingot production was curtailed by water shortages in the Highlands of Scotland in the middle of the year. By year-end, however, production was running close to capacity. A two-year \$80-million investment to upgrade and refurbish environmental controls at the closed potline at the Lynemouth smelter is being implemented to allow resumption to full capacity when warranted by market conditions. The sale of downstream businesses took place in February 1996, raising some \$300 million.

Alcan's operations in Germany were particularly affected by weak demand and lower prices for rolled products as well as higher costs related to the expansion of capacity at the Norf and Nachterstedt rolling mills. With some recovery in shipment volumes towards the end of the year, capacity utilization has begun to improve.

Sales volumes of the Italian business were similar to 1995, but margins suffered, with a lower proportion of sales of higher margin products.

In France, despite a 3% drop in the building systems market, income in 1996 was higher than in 1995 due to cost reductions and marketing improvements.

The alumina refinery in Ireland suffered a decline in net income resulting from lower alumina prices. Cost control continues to be excellent.

Asia and Pacific

(millions of US\$)	1996	1995	1994
Net income	13	43	28
Net income (Loss) excluding special items*	25	43	(21)
Shipments (kt)			
Ingot products	199	193	274
Fabricated products	13	32	44

* Special items include: 1996 rationalization expenses, 1994 gains from the sale of Alcan Australia Limited and a dilution of Alcan's interest in Indal.

The improvement in net income from operations experienced in 1995 was partially reversed in 1996 by the effect of lower alumina and metal prices and some slowing in the rate of growth of the Southeast Asian economies. During the year, Alcan and its related companies in Japan, Nippon Light Metal Company, Ltd. (NLM) and Toyo Aluminium K.K. (Toyal), restructured certain of their holdings in the region. The restructuring will reinforce the Alcan Group's support to its subsidiaries and related companies in Southeast Asia and China while enabling NLM to focus on opportunities and strengthen its position in Japan. Additional information is provided in note 11 of the financial statements.

The recovery in the Japanese economy continued, albeit at a subdued rate. For NLM, owned 45.6% (47.4% in 1995) by Alcan, 1996 was a year of some improvement. During the year, several of its businesses were restructured and staff reduced. As a result, Alcan's share of rationalization expenses was \$12 million, which is included in Equity loss.

In India, economic growth slowed during 1996 with building and manufacturing being particularly affected. This, together with lower aluminum and alumina prices, resulted in a 25% decline in net income for Indian Aluminium Company, Limited (Indal), 34.6%-owned by Alcan. During the year, Indal increased its metallurgical and special-grade alumina capacity by 65 kt/y through a brownfield expansion program.

Other Areas

(millions of US\$)	1996	1995	1994
Net income	31	39	7
Net income excluding special items*	35	39	13
Shipments (kt)			
Ingot products	1	—	31
Fabricated products	7	7	4

* Special items in 1996 and 1994 were mainly rationalization expenses.

Activities in other areas include raw materials operations in Jamaica, Guinea and Ghana, and trading, shipping and insurance activities in Bermuda. Alcan also sells metal in other parts of the world such as the Middle East and Africa.

Slow economic growth and customer inventory reductions in 1996 kept primary aluminum prices under pressure through most of the year. Although Alcan's profits and cash from operating activities were lower than in 1995, the Company continued to strengthen its balance sheet. By year-end, Alcan had improved its debt-to-equity ratio, net of surplus cash, to 17:83, below its stated target of 20:80.

RESULTS OF OPERATIONS

(millions of US\$)	1996	1995	1994
Net income before extraordinary item	410	543	96
Extraordinary loss	—	(280)	—
Net income	410	263	96

For 1996, Alcan reported consolidated net income of \$410 million. Included in the year were net after-tax charges of \$23 million, comprising \$30 million of restructuring charges and \$12 million of charges for the early retirement of debt offset by \$8 million of gains arising on disposals of businesses and \$11 million of tax adjustments for prior periods.

In 1995, consolidated net income, before an extraordinary loss, was \$543 million. The extraordinary loss of \$280 million, after tax, was for the write-down of the Company's investment in the Kemano Completion Project (KCP). An update on KCP can be found on page 34. Net income for 1995 was also reduced by approximately \$70 million due to a strike at the Company's operations in Quebec, and by charges of \$15 million for the early retirement of debt. These items were partially offset by a gain of \$24 million, which arose from the sale of a metals distribution business in the U.S.

Net income for 1994 included \$43 million in after-tax gains from the disposal of several businesses, offset by charges of \$41 million, after tax, largely for the rationalization of ongoing businesses and the early retirement of debt.

Other income, which principally includes non-operating gains and interest revenue, totalled \$75 million in 1996 compared to \$100 million in 1995 and \$109 million in 1994. Income in the two earlier years included pre-tax gains on the disposal of downstream businesses.

Costs and Expenses

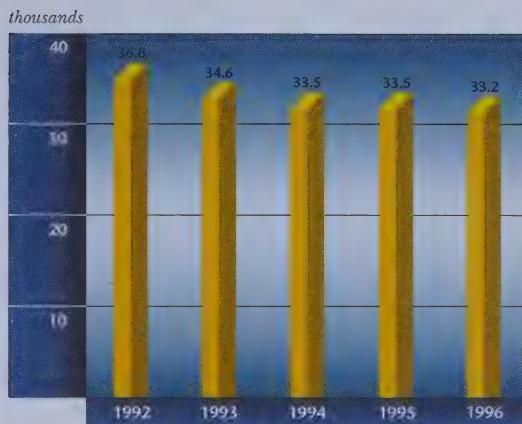
Cost of sales and operating expenses were \$5,905 million in 1996, 18% lower than in the previous year. The decrease in the cost of products sold largely reflects the impact of business disposals, as well as the lower cost of purchased metal and certain raw materials, such as caustic soda. In 1995, costs rose by 7% due to higher purchase prices for metal and raw materials, as well as the additional costs incurred due to the Quebec strike.

(kt)	1996	1995	1994
Purchases of aluminum			
Ingot products	509	789	759
Scrap	446	509	460
Fabricated products	48	67	131
	1,003	1,365	1,350

In 1996, total purchases of aluminum, at 1,003 kt, were down from the levels of the previous two years largely due to the impact of business disposals and increased primary production. Market prices for ingot were on average \$1,536/t in 1996 compared to \$1,830/t in 1995 and \$1,500/t in 1994.

Depreciation expense was \$431 million in 1996, compared to \$447 million in 1995 and \$431 million in 1994. After having risen in 1995 as a result of the consolidation of joint ventures previously accounted for as equity companies, depreciation declined in 1996 due to the sale of some downstream businesses.

Number of Employees
Adjusted for Business
Acquisitions and Disposals
(at year-end)



Reflecting Alcan's ongoing efforts to contain costs and improve productivity, employment levels remained under tight control in 1996.

Selling, administrative and general expenses declined for the sixth consecutive year. In 1996, these expenses were \$422 million, 13% lower than in 1995 and 20% lower than in 1994. Since their peak in 1990, these expenses have declined by \$237 million, or 36%, largely due to divestitures, employee and other reductions, and weaker local currencies against the U.S. dollar.

Research and development expenses were \$71 million in 1996, little changed from 1994 and 1995. The fairly stable level of expenses over the last three years reflects Alcan's efforts to align R & D activities more closely with the technology needs of its core businesses, principally raw materials, smelting and rolling. In 1997, spending is expected to be about the same as in 1996.

Interest Costs

(millions of US\$)	1996	1995	1994
Interest expense	125	204	219
Interest capitalized	—	2	16
Total interest costs	125	206	235
Effective average interest rate	7.3%	8.2%	8.7%

During 1996, Alcan continued to reduce its total borrowings, as discussed on page 32. As a consequence, total interest costs for the year declined by \$81 million. The average effective interest rate for the year also declined, reflecting the repayment of higher cost long-term debt and the impact of lower interest rates.

Other expenses, which include items such as rationalization expenses and exchange losses, were \$88 million in 1996, versus \$61 million in 1995 and \$95 million in 1994. The increase in 1996 was mainly due to rationalization expenses.

Income Taxes

Income taxes of \$226 million for 1996 represent an effective tax rate of 35% versus a composite statutory rate of 40%. The difference in rates is mainly due to the realization of previously unrecorded tax benefits on losses, investment and other allowances and tax adjustments for prior periods, partially offset by non-deductible expenses. In 1995, there was little difference between the two rates. In 1994, Alcan's effective rate was 47%, primarily due to non-deductible currency translation losses and withholding taxes, partially offset by reduced rate or tax exempt items.

Total Borrowings and Equity (at year-end)

- Total borrowings
- Equity (includes minority interests and preference shares)
- Ratio of total borrowings to equity



Continued good cash generation, together with proceeds from the divestment of businesses, allowed Alcan to further improve its borrowings-to-equity ratio to 23:77. Adjusted for surplus cash at year-end, the ratio was 17:83.

Equity Companies

Alcan's share of the losses of equity-accounted companies was \$10 million in 1996 versus \$3 million in 1995 and \$29 million in 1994. The increase over 1995 is largely due to restructuring costs incurred by Alcan's related company in Japan, Nippon Light Metal Company, Ltd. (NLM).

LIQUIDITY AND CAPITAL RESOURCES

Declining fabricated products prices and lower volumes, due to the divestment of businesses, led to a reduction in cash generation in 1996. Calculated by taking the net income for the year, before extraordinary items, and adding back depreciation and deferred income taxes, cash generation was \$856 million, as compared to \$1,164 million in 1995 and \$563 million in 1994.

For 1996, cash generation exceeded the Company's combined cash requirements for capital expenditures and dividends, by \$222 million. Proceeds from the disposal of non-strategic businesses and other assets totalled \$660 million, further increasing available cash resources.

During the year, Alcan reduced its total borrowings by \$414 million and redeemed \$150 million of preference shares. At year-end, the Company had cash and time deposits of \$546 million, up from \$66 million at the end of 1995. The ratio of total borrowings to equity continued to improve during 1996, reaching 23:77 by year-end, down from 29:71 at the end of 1995 and 35:65 at the end of 1994. The 1996 ratio improves further to 17:83 when adjusted to reflect surplus cash at year-end.

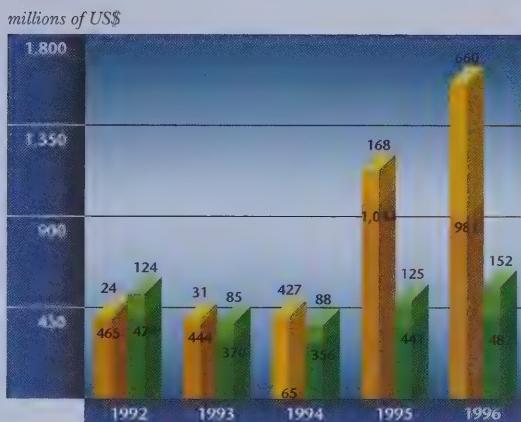
Net operating working capital decreased by \$63 million in 1996. This was principally due to the impact of lower metal prices on inventories and accounts receivable. In 1994 and 1995, net operating working capital increased in order to meet increased business activity.

Investment Activities

Capital spending for the year totalled \$482 million, versus \$441 million in 1995 and \$356 million in 1994. On an ongoing basis, annual spending of approximately \$400 million is required to maintain the integrity of the Company's existing assets. The remaining expenditures were mainly to improve and round-out fabricating facilities and to extend the lives of the Company's smelters.

Cash Flows

- █ Sales of assets and investments
- █ Cash from operating activities
- █ Dividends paid
- █ Capital expenditures



Cash generation, together with proceeds from divestments, far exceeded cash requirements. After the repayment of debt and redemption of preference shares, Alcan had \$546 million of cash at the end of the year.

The increase in spending in 1995 was largely due to the impact of consolidating joint ventures previously accounted for as equity companies, as well as the acquisition of the minority interest in the Aughinish alumina refinery in Ireland.

Projects, in 1997, other than those to maintain existing assets, include the upgrade of environmental systems at the Lynemouth smelter in the U.K.

In 1996, Alcan completed its major program to divest itself of non-strategic businesses. Over the last three years, the Company has sold a 73.3% interest in Alcan Australia Limited and a large number of downstream businesses in Canada, the U.S., the U.K. and Brazil. Proceeds generated from the sales of non-strategic businesses total \$1.2 billion, which has been used mainly to reduce debt.

In the third quarter of 1996, Alcan undertook a restructuring of its investments in Asia. As a first step, Alcan sold a related company in Japan, Toyo Aluminium K.K. (Toyal), to Nippon Light Metal Company, Ltd., another related company in Japan, for cash proceeds of \$207 million. As Toyal remains within the Alcan Group, the gain on the transaction was deferred.

In November, Alcan and NLM created a new company, Alcan Nikkei Asia Holdings Ltd. (ANAH), owned 60% by Alcan and 40% by NLM. In exchange for shares of ANAH, Alcan contributed a portion of its holdings in NLM, while NLM contributed its shareholdings in a number of companies in Southeast Asia and China. As a result of the transaction, Alcan's effective ownership in NLM fell from 47.4% to 45.6%.

Financing Activities

As discussed earlier, Alcan further reduced total borrowings in 1996, bringing the total reduction over the last three years to approximately \$1.2 billion.

During the year, the Company prepaid \$367 million of debentures, including, the 12.45% debentures due in 1997, the 9.1% debentures due in 1998 and the 6.375% debentures due in 1997. Other repayments of long-term debt amounted to \$36 million, while short-term borrowings were reduced by \$11 million. In addition, Alcan redeemed \$150 million of its Series G preference shares.

As a result of the early retirement of the debentures, which carried interest rates that were higher than current market rates, Alcan incurred after-tax charges of \$12 million in 1996 and \$15 million in 1995.

Interest charges were down in 1996 due to lower debt and interest rates. As a consequence, Alcan's pre-tax interest coverage ratio improved to 5.6 times as compared to 4.8 times in 1995 and 1.8 times in 1994.

The quarterly dividend on common shares was unchanged in 1996 at 15 cents per share. The dividend had been increased from 7.5 cents to 15 cents per common share in July 1995. Total dividends paid to common shareholders in 1996 were \$136 million versus \$101 million in 1995 and \$67 million in 1994. With the redemption of preference shares in 1996, dividends to preference shareholders declined to \$16 million for the year from \$24 million in 1995 and \$21 million in 1994.

In December 1996, Alcan entered into a \$1-billion global multicurrency credit facility with a syndicate of banks, in replacement of its other existing credit lines. At year-end, the full amount of the new facility was available and unutilized.

For 1997, the Company expects that its cash generation and cash reserves will be more than sufficient to meet planned capital expenditures and dividends. Moreover, the Company's investment-grade rating gives it ready access to capital markets, through the issuance of a wide range of securities. In addition, should any major unforeseeable events occur, the above-mentioned \$1-billion credit facility should provide more than adequate liquidity.

KEMANO COMPLETION PROJECT

In the third quarter of 1995, the Company wrote down its investment in Kemano Completion Project (KCP). After estimated disposal proceeds and site restoration costs, the amount of the write-down was \$420 million, resulting in an extraordinary loss of \$280 million on an after-tax basis, or US\$1.24 per common share.

In January 1995, the government of British Columbia unilaterally announced that it would not allow KCP to proceed and indicated its preparedness to confirm this prohibition by legislation. This highly unusual action by the government was in breach of certain legal agreements among the Province, the Company and the government of Canada under which the Company was granted certain rights in connection with the development of hydroelectric facilities.

Shortly after the government's announcement, Alcan and the government began talks for the purpose of attempting to reach a satisfactory resolution of this matter. The write-down of KCP in 1995 recognized that the project could not be completed due to the government's prohibition.

Any future quantifiable benefit received as compensation for the government's rejection of KCP will be treated as an extraordinary gain when realized.

On January 22, 1997, the Company filed, in the British Columbia Supreme Court, a writ of summons which names the Province of British Columbia as defendant in a lawsuit for damages arising from its rejection of KCP. The Company continues negotiations with the government in an attempt to reach an out-of-court settlement.

ENVIRONMENTAL MATTERS

Alcan is committed to the continued environmental improvement of its operations and products. The Company has devoted, and will continue to devote, significant resources to control air and water pollutants, to safely dispose of wastes and to remediate sites of past waste disposal. Alcan estimates that annual environment-related spending, both capital and expense, will average about \$170 million per year over the next several years and is not expected to have a material effect on its competitive position. While the Company does not anticipate a material increase in the projected level of such expenditures, there is always a possibility that such increases may occur in the future in view of the uncertainties associated with environmental exposures, including new information concerning sites with identified environmental liabilities and changes in laws and regulations and their application.

Included in total operating costs and expenses for the year are amounts for safeguarding the environment and improving working conditions in plants. In 1996, such expenses totalled \$96 million. This amount was largely for costs associated with reducing air emissions and mitigating the impact of waste and by-products. In 1994 and 1995, these expenses totalled \$47 million and \$76 million, respectively.

Included in capital spending in 1996 was \$60 million for environment-related projects. Such spending was largely on equipment designed to reduce or contain air emissions generated by Alcan plants. Spending in 1994 and 1995 was \$39 million and \$53 million, respectively.

RISKS AND UNCERTAINTIES

Risk Management

As a multinational company engaged in a commodity-related business, Alcan's financial performance is significantly impacted by fluctuations in metal prices and exchange rates. In order to reduce the associated risks, the Company uses a variety of financial instruments and commodity contracts. All risk management activities are governed by clearly defined policies and management controls. Transactions in financial instruments for which there is no underlying exposure are prohibited.

The decision whether and when to commence a hedge, along with the duration of the hedge, can vary from period to period depending on market conditions and the relative costs of various hedging instruments. The duration of a hedge is always linked to the timing of the underlying transaction, with the connection between the two being constantly monitored to ensure effectiveness.

Foreign Currency Exchange

Exchange rate movements, particularly between the Canadian dollar and U.S. dollar, have an important impact on Alcan's results. For example, on an annual basis, each US\$0.01 permanent change in the value of the Canadian dollar has an after-tax impact of approximately \$11 million on the Company's long-term profitability. Alcan benefits from a weakening in the Canadian dollar, but, conversely, is disadvantaged if it strengthens. In order to reduce the short-term volatility in costs arising from movements in exchange rates, Alcan hedges a substantial portion of its Canadian dollar exposure through the use of forward exchange contracts and currency options.

For further details, refer to note 17 of the financial statements.

Aluminum Prices

Depending on market conditions and logistical considerations, Alcan may sell primary aluminum to third parties and may purchase primary aluminum and secondary aluminum, including scrap, on the open market to meet the requirements of its fabricating businesses. In addition, depending on pricing arrangements with fabricated products customers, Alcan may hedge some of its purchased metal supply in support of those sales.

Through the use of forward purchase and sale contracts and options, Alcan seeks to limit the impact of lower metal prices, while retaining the ability to benefit from higher prices. The Company may also, through a combination of hedging instruments, establish a range of sales prices for a certain portion of its future revenues.

Alcan estimates that on an annual basis, each \$100 per tonne change in the price of aluminum has an after-tax impact of approximately \$100 million on the Company's profitability.

For further details, refer to note 17 of the financial statements.

RESPONSIBILITY FOR THE ANNUAL REPORT

Alcan's management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include, where appropriate, estimates based on the best judgement of management. They conform in all material respects with accounting principles established by the International Accounting Standards Committee. A reconciliation with accounting principles generally accepted in the United States is also presented. Financial and operating data elsewhere in the Annual Report are consistent with that contained in the accompanying financial statements.

Alcan's policy is to maintain systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that Company assets are adequately accounted for and safeguarded. The Board of Directors oversees the Company's systems of internal accounting and administrative controls through its Audit Committee, which is comprised of directors who are not employees. The Audit Committee meets regularly with representatives of the shareholders' independent auditors and management, including internal audit staff, to satisfy themselves that Alcan's policy is being followed.

The Audit Committee has recommended the reappointment of Price Waterhouse as the independent auditors, subject to approval by the shareholders.

The financial statements have been reviewed by the Audit Committee and, together with the other required information in this Annual Report, approved by the Board of Directors. In addition, the financial statements have been audited by Price Waterhouse, whose report is provided below.

Jacques Bougie,
Chief Executive Officer

Suresh Thadhani,
Chief Financial Officer

February 13, 1997

OECD GUIDELINES

The Organization for Economic Cooperation and Development (OECD), which consists of 24 industrialized countries including Canada, has established guidelines setting out an acceptable framework of reciprocal rights and responsibilities between multinational enterprises and host governments.

Alcan supports and complies with the OECD guidelines, and the Company's own statement, *Alcan, Its Purpose, Objectives and Policies*, is consistent with them. This statement, first published in 1978, has been distributed in 11 languages to Alcan employees worldwide to strengthen the awareness of the basic principles and policies which have guided the conduct of Alcan's business over the years.

The statement of Alcan's purpose, objectives and policies, the Company's annual information form and its 10-K report are all available to shareholders on request. The latter two documents contain a complete list of significant Alcan Group companies worldwide.

AUDITORS' REPORT

To the Shareholders of Alcan Aluminium Limited

We have audited the consolidated balance sheet of Alcan Aluminium Limited as at December 31, 1996, 1995 and 1994 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996, 1995 and 1994 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1996 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

Montreal, Canada
February 13, 1997

Consolidated Statement of Income

(in millions of US\$, except per share amounts)

Year ended December 31	1996	1995	1994
Revenues			
Sales and operating revenues	\$7,614	\$9,287	\$8,216
Other income	75	100	109
	7,689	9,387	8,325
Costs and expenses			
Cost of sales and operating expenses	5,905	7,233	6,740
Depreciation (note 2)	431	447	431
Selling, administrative and general expenses	422	484	528
Research and development expenses	71	76	72
Interest	125	204	219
Other expenses	88	61	95
	7,042	8,505	8,085
Income before income taxes and other items	647	882	240
Income taxes (note 6)	226	340	112
Income before other items	421	542	128
Equity loss (note 8)	(10)	(3)	(29)
Minority interests	(1)	4	(3)
Net income before extraordinary item	\$ 410	\$ 543	\$ 96
Extraordinary loss (note 4)	—	280	—
Net income	\$ 410	\$ 263	\$ 96
Dividends on preference shares	16	24	21
Net income attributable to common shareholders	\$ 394	\$ 239	\$ 75
Net income per common share before extraordinary item (note 2)	\$ 1.74	\$ 2.30	\$ 0.34
Extraordinary loss per common share (note 4)	—	1.24	—
Net income per common share (note 2)	\$ 1.74	\$ 1.06	\$ 0.34
Dividends per common share	0.60	0.45	0.30

Consolidated Statement of Retained Earnings

(in millions of US\$)

Year ended December 31	1996	1995	1994
Retained earnings – beginning of year	\$2,959	\$2,821	\$2,813
Net income	410	263	96
	3,369	3,084	2,909
Dividends – Common – Preference	136 16	101 24	67 21
Retained earnings – end of year (note 15)	\$3,217	\$2,959	\$2,821

Consolidated Balance Sheet

(in millions of US\$)

	December 31	1996	1995	1994
Assets				
Current assets				
Cash and time deposits	\$ 546	\$ 66	\$ 27	
Receivables	1,262	1,449	1,410	
Inventories				
Aluminum	736	888	863	
Raw materials	325	321	228	
Other supplies	244	281	293	
	1,305	1,490	1,384	
	3,113	3,005	2,821	
Deferred charges and other assets (note 3)	314	364	455	
Investments (notes 3, 8 and 11)	428	695	1,193	
Property, plant and equipment (notes 3, 4 and 9)				
Cost	11,517	11,735	10,718	
Accumulated depreciation	6,047	6,063	5,184	
	5,470	5,672	5,534	
Total assets	\$ 9,325	\$ 9,736	\$10,003	
Liabilities and Shareholders' Equity				
Current liabilities				
Payables	\$ 1,008	\$ 1,107	\$ 1,096	
Short-term borrowings	178	212	195	
Income and other taxes	98	101	23	
Debt maturing within one year (note 10)	19	28	70	
	1,303	1,448	1,384	
Debt not maturing within one year (notes 3, 10 and 17)	1,319	1,745	2,220	
Deferred credits and other liabilities (note 12)	770	701	796	
Deferred income taxes	996	979	914	
Minority interests (note 11)	73	28	28	
Shareholders' equity				
Redeemable non-retractable preference shares (note 13)	203	353	353	
Common shareholders' equity				
Common shares (note 14)	1,235	1,219	1,195	
Retained earnings (note 15)	3,217	2,959	2,821	
Deferred translation adjustments (note 16)	209	304	292	
	4,661	4,482	4,308	
	4,864	4,835	4,661	
Commitments and contingencies (note 18)				
Total liabilities and shareholders' equity	\$ 9,325	\$ 9,736	\$10,003	

Approved by the Board:

Jacques Bougie,
Director

W.R.C. Blundell
Director

4661 x 136

6338

Consolidated Statement of Cash Flows

(in millions of US\$)

Year ended December 31	1996	1995	1994
Operating Activities			
Net income before extraordinary item	\$ 410	\$ 543	\$ 96
Adjustments to determine cash from operating activities:			
Depreciation	431	447	431
Deferred income taxes	15	174	36
Equity income – net of dividends	21	12	51
Change in receivables	187	(38)	(345)
Change in inventories	185	(107)	(128)
Change in payables	(99)	11	168
Change in income and other taxes payable	(3)	78	7
Changes in operating working capital due to:			
Deferred translation adjustments	(29)	33	60
Acquisitions, disposals and consolidations/deconsolidations	(178)	(77)	(173)
Change in deferred charges, other assets, deferred credits and other liabilities – net	25	30	(86)
Gain on sales of businesses – net	(8)	(34)	(35)
Other – net	24	(28)	(17)
Cash from operating activities	981	1,044	65
Financing Activities			
New debt	56	90	339
Debt repayments	(459)	(738)	(464)
Short-term borrowings – net	(11)	4	8
Common shares issued	16	24	12
Shares issued by subsidiary companies	—	1	2
Redemption of preference shares	(150)	—	—
Dividends – Alcan shareholders (including preference) ..	(152)	(125)	(88)
Cash used for financing activities	(700)	(744)	(191)
Investment Activities			
Property, plant and equipment	(482)	(390)	(264)
Investments	—	(38)	(81)
Other	—	(13)	(11)
Net proceeds from disposal of businesses and other assets	(482)	(441)	(356)
Cash from (used for) investment activities	660	168	427
Effect of exchange rate changes on cash and time deposits	(1)	1	5
Increase (Decrease) in cash and time deposits	458	28	(50)
Cash of companies consolidated (deconsolidated) – net	22	11	(4)
Cash and time deposits – beginning of year	66	27	81
Cash and time deposits – end of year	\$ 546	\$ 66	\$ 27

(in millions of US\$,
except where indicated)

1. Nature of Operations

Alcan is engaged, together with subsidiaries and related companies, in all aspects of the aluminum business on an international scale. Its operations include the mining and processing of bauxite, the basic aluminum ore; the refining of bauxite into alumina; the generation of electric power for use in smelting aluminum; the smelting of aluminum from alumina; the recycling of used and scrap aluminum; the fabrication of aluminum, aluminum alloys and non-aluminum materials into semi-fabricated and finished products; the distribution and marketing of aluminum and non-aluminum products; and, in connection with its aluminum operations, the production and sale of industrial chemicals. Alcan, together with its subsidiaries and related companies, has bauxite holdings in six countries, produces alumina in nine, smelts primary aluminum in six, operates aluminum fabricating plants in 16 and has sales outlets and maintains warehouse inventories in the larger markets of the world. Alcan also operates a global transportation network that includes bulk cargo vessels, port facilities and freight trains.

Since the metal aluminum, from the raw material to the semi-fabricated or finished product, is the prime concern of the Company, and since its operations are vertically integrated on an international basis, the Company is engaged in one industry. Operations other than those related to aluminum, process materials and by-products are not material.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements, which are expressed in U.S. dollars, the principal currency of Alcan's business, are prepared in accordance with generally accepted accounting principles (GAAP) in Canada. They include the accounts of companies controlled by Alcan, virtually all of which are majority owned. Joint ventures, irrespective of percentage of ownership, are proportionately consolidated to the extent of Alcan's participation. Consolidated net income also includes Alcan's equity in the net income or loss of companies owned 50% or less where Alcan has significant influence over management, and the investment in these companies is increased or decreased by Alcan's share of their undistributed net income or loss and deferred translation adjustments since acquisition. Investments in companies in which Alcan does not have significant influence over management are carried at cost less amounts written off.

Intercompany balances and transactions, including profits in inventories, are eliminated.

Foreign Currency

The financial statements of self-sustaining foreign operations are translated into U.S. dollars at prevailing exchange rates. Differences arising from exchange rate changes are included in the Deferred translation adjustments (DTA) component of Common shareholders' equity. If there is a reduction in the Company's ownership in a foreign operation, the relevant portion of DTA is recognized in Other income or Other expenses at that time.

Gains or losses on forward exchange contracts or currency options, all of which serve to hedge certain future identifiable foreign currency exposures, are included, together with related hedging costs, in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Unrealized gains or losses on currency swaps, all of which are used to hedge certain identifiable foreign currency debt obligations, are recorded concurrently with the unrealized gains or losses on the debt obligations being hedged.

Other gains and losses from foreign currency denominated items are included in Other income or Other expenses.

2. Summary of Significant Accounting Policies (cont'd)

Commodity Contracts and Options

Gains or losses on forward metal contracts and options, all of which serve to hedge certain future identifiable aluminum price exposures, are included, together with related hedging costs, in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Interest Rate Swaps

Net cash flows related to interest rate swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

Inventories

Aluminum, raw materials and other supplies are stated at cost (determined for the most part on the monthly average method) or net realizable value, whichever is the lower.

Depreciation

Depreciation is calculated on the straight-line method using rates based on the estimated useful lives of the respective assets. The principal rates are $2\frac{1}{2}\%$ for buildings and range from 1% to 4% for power assets and 3% to $12\frac{1}{2}\%$ for chemical, smelter and fabricating assets.

Environmental Costs and Liabilities

Environmental expenses are accrued when it is probable that a liability for past events exists. For future removal and site restoration costs, provision is made in a systematic manner by periodic charges to income, except for assets that are no longer in use, in which case full provision is charged immediately to income. Environmental expenses are normally included in Cost of sales and operating expenses except for large, unusual amounts which are included in Other expenses. Accruals related to environmental costs are included in Payables and Deferred credits and other liabilities.

Environmental expenditures of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in Property, plant and equipment and are depreciated generally over the remaining useful life of the underlying asset.

Post-Retirement Benefits Other Than Pensions

The costs of post-retirement benefits other than pensions are recognized on an accrual basis over the working lives of employees.

Net Income Per Common Share

Net income per common share is calculated by dividing Net income attributable to common shareholders by the average number of common shares outstanding (1996: 226.2 million; 1995: 225.3 million; 1994: 224.3 million).

3. Accounting Changes

In the first quarter of 1996, the Company adopted new recommendations of the Canadian Institute of Chartered Accountants (CICA) on disclosure and presentation of financial instruments. The new recommendations, which have no impact on earnings or cash flow, have been applied retroactively and the December 31, 1995 balance sheet has been restated to increase both Debt not maturing within one year and Deferred charges and other assets by \$34 (\$14 in 1994).

In the first quarter of 1995, the Company adopted new recommendations of the CICA, which require that all joint ventures be accounted for using the proportionate consolidation method. Prior to 1995, incorporated joint ventures had been accounted for using the equity method. This change has been applied prospectively and has no impact on net income. The impact on revenues and expenses is not significant. The major impact of the change was to replace \$461 of Investments as at January 1, 1995, by the Company's proportionate share of the underlying assets (principally Property, plant and equipment of \$574) and liabilities (including total debt of \$94) in incorporated joint ventures.

4. Extraordinary Loss — Kemano Completion Project

In the third quarter of 1995, the Company wrote down its investment in Kemano Completion Project (KCP). After estimated disposal proceeds and site restoration costs, the amount of the write-down was \$420, resulting in an extraordinary loss of \$280 on an after-tax basis, or US\$1.24 per common share.

In January 1995, the government of British Columbia unilaterally announced that it would not allow KCP to proceed and indicated its preparedness to confirm this prohibition by legislation. This highly unusual action by the government was in breach of certain legal agreements among the Province, the Company and the government of Canada under which the Company was granted certain rights in connection with the development of hydroelectric facilities.

Shortly after the government's announcement, Alcan and the government began talks for the purpose of attempting to reach a satisfactory resolution of this matter. The write-down of KCP in 1995 recognized that the project could not be completed due to the government's prohibition.

Any future quantifiable benefit received as compensation for the government's rejection of KCP will be treated as an extraordinary gain when realized.

On January 22, 1997, the Company filed, in the British Columbia Supreme Court, a writ of summons which names the Province of British Columbia as defendant in a lawsuit for damages arising from its rejection of KCP. The Company continues negotiations with the government in an attempt to reach an out-of-court settlement.

5. Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

Deferred Income Taxes

Under Canadian GAAP, deferred income taxes are measured at tax rates prevailing at the time the provisions for deferred taxes are made. Deferred income taxes for U.S. GAAP are revalued each period using currently enacted tax rates.

Under Canadian GAAP, deferred income taxes of operations using the temporal method (integrated operations and foreign operations located in hyperinflationary economies) are translated at historical exchange rates, while under U.S. GAAP, deferred income taxes of all operations are translated at current exchange rates.

Currency Translation

Under Canadian GAAP, unrealized exchange gains and losses on translation of long-term monetary items are deferred and amortized over the life of those items, whereas, under U.S. GAAP, such gains and losses are absorbed in income immediately.

Share Purchase Loans

Under Canadian GAAP, share purchase loans to employees are classified as receivables, whereas such loans are deducted from the stated value of common shares under U.S. GAAP.

5. Differences Between
Canadian and United
States Generally
Accepted Accounting
Principles (GAAP)
(cont'd)

Reconciliation of Canadian and U.S. GAAP

	1996		1995		1994	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Net income from continuing operations before extraordinary item	\$ 410	\$ 420	\$ 543	\$ 561	\$ 96	\$ 175
Extraordinary loss	—	—	280	295	—	—
Net income*	\$ 410	\$ 420	\$ 263	\$ 266	\$ 96	\$ 175
Net income attributable to common shareholders	\$ 394	\$ 404	\$ 239	\$ 242	\$ 75	\$ 154
Extraordinary loss per common share	\$ —	\$ —	\$ 1.24	\$ 1.31	\$ —	\$ —
Net income per common share	\$ 1.74	\$ 1.79	\$ 1.06	\$ 1.07	\$ 0.34	\$ 0.69
Deferred income taxes — December 31	\$ 996	\$ 755	\$ 979	\$ 762	\$ 914	\$ 703
Common shares — December 31	\$ 1,235	\$ 1,231	\$ 1,219	\$ 1,213	\$ 1,195	\$ 1,187
Retained earnings — December 31	\$ 3,217	\$ 3,520	\$ 2,959	\$ 3,252	\$ 2,821	\$ 3,111
Deferred translation adjustments (DTA) — December 31	\$ 209	\$ 141	\$ 304	\$ 214	\$ 292	\$ 197

*In 1996, \$2 (\$1 in 1995 and \$85 in 1994) of the net difference between "As Reported" and "U.S. GAAP" relates to accounting for deferred income taxes. In 1994, \$68 of this difference arose from changes in tax rates enacted during the year.

$$\begin{array}{r} \text{FAS 109} \\ \text{21} \\ \text{FX (Data)} 81 \\ \hline 10 \end{array}$$

420 - Am GAAP NE from contd.

LAP

1231 CLS
3520 RIE
141 OSA
202 PGS
5096 2026
X136 X1629

**5. Differences Between
Canadian and United
States Generally
Accepted Accounting
Principles (GAAP)
(cont'd)**

The principal items included in Deferred income taxes under U.S. GAAP are:

	December 31		
	1996	1995	1994
Liabilities:			
Depreciation	\$ 810	\$ 844	\$ 933
Undistributed earnings of equity companies	60	86	93
Inventory valuation	43	48	74
Other	77	57	45
	990	1,035	1,145
Assets:			
Tax benefit carryovers	121	184	346
Accounting provisions not currently deductible for tax	180	199	195
Other	18	9	12
	319	392	553
Valuation allowance (amount not likely to be recovered)			
	84	119	111
	235	273	442
Net deferred income tax liability	\$ 755	\$ 762	\$ 703

The difference between DTA under Canadian GAAP and U.S. GAAP arises principally from the impact of FASB Statement No. 109 and from the different treatment of exchange on long-term debt at January 1, 1983, resulting from the adoption of new accounting standards on foreign currency translation.

Net income (Loss) from continuing operations, before cumulative effect on prior years of accounting change, on a U.S. GAAP basis for the years 1993 and 1992 was \$(89) and \$(39), respectively, compared to \$(104) and \$(112), respectively, as reported. Net income (Loss) from continuing operations, before cumulative effect on prior years of accounting change, per common share on a U.S. GAAP basis for the years 1993 and 1992 was \$(0.47) and \$(0.28), respectively, compared to \$(0.54) and \$(0.60), respectively, as reported.

6. Income Taxes

	1996	1995	1994
Income (Loss) before income taxes and other items			
Canada	\$ 235	\$ 300	\$ (15)
Other countries	412	582	255
	647	882	240
Current income taxes			
Canada	87	29	5
Other countries	124	137	71
	211	166	76
Deferred income taxes			
Canada	(5)	114	30
Other countries	20	60	6
	15	174	36
Income tax provision	\$ 226	\$ 340	\$ 112

6. Income Taxes (cont'd)

The composite of the applicable statutory corporate income tax rates in Canada is 40.1% (1995: 40.3%; 1994: 40.1%). The following is a reconciliation of income taxes calculated at the above composite statutory rates with the income tax provision:

	1996	1995	1994
Income taxes at the composite statutory rate	\$ 259	\$ 355	\$ 96
Differences attributable to:			
Exchange translation items	11	17	39
Unrecorded tax benefits on losses — net	(33)	(5)	—
Investment and other allowances	(24)	(24)	(14)
Large corporations tax	3	6	7
Withholding taxes	6	6	20
Reduced rate or tax exempt items	17	(21)	(29)
Foreign tax rate differences	(9)	(6)	(19)
Prior years' tax adjustments	(11)	(6)	(3)
Other — net	7	18	15
Income tax provision	\$ 226	\$ 340	\$ 112

In 1996, \$7 (\$2 in 1995; \$4 in 1994) of benefits related to income tax loss carryforwards were recorded in deferred income tax expense.

Based on rates of exchange at December 31, 1996, additional benefits of approximately \$68 relating to prior and current years' tax losses will only be recognized in income when realized.

7. Joint Ventures

The activities of the Company's major joint ventures are the procurement and processing of raw materials in Australia, Brazil and Guinea, as well as aluminum rolling operations in Germany and the United States.

Beginning in 1995, Alcan's proportionate interest in all joint ventures is included in the consolidated financial statements (see note 3). Summarized financial information relating to Alcan's share of these joint ventures is provided below.

Because most of the activities of the Company's joint ventures relate to supplying the Company's other operations, the portion of the Company's third-party revenues, and related costs and expenses, conducted through joint ventures is insignificant.

	1996	1995
Financial Position at December 31		
Inventories	\$ 159	\$ 158
Property, plant and equipment — net	1,001	1,037
Other assets	95	114
Total assets	\$1,255	\$1,309
Short-term debt	\$ 17	\$ 15
Debt not maturing within one year	106	102
Other liabilities	152	145
Total liabilities	\$ 275	\$ 262
Cash flow information for the year ended December 31		
Cash from financing activities	\$ 12	\$ 18
Cash used for investment activities	\$ (76)	\$ (28)

8. Investments

	1996	1995	1994
Companies accounted for under the equity method	\$ 421	\$ 688	\$ 1,185
Other investments — at cost, less amounts written off	7	7	8
	\$ 428	\$ 695	\$ 1,193

The activities of the major equity-accounted companies are diversified aluminum operations in Japan and India. On December 31, 1996, the quoted market value of the Company's investments in Nippon Light Metal Company, Ltd. (NLM) and Indian Aluminium Company, Limited (Indal) exceeds their book value by \$632. Their combined results of operations and financial position are included in the summary below. The 1996 information for NLM excludes, from the date of acquisition, the interest in those subsidiaries acquired by the Company from NLM as a result of the restructuring of the Company's holdings in Asia, explained in note 11.

The information for 1994 also includes the results of operations and financial position for an aluminum rolling operation in Germany and for operations related to the procurement and processing of raw materials in Australia, Brazil and Guinea. Beginning in 1995, these joint ventures are proportionately consolidated and summarized financial information about these is included in note 7.

	1996	1995	1994
Results of operations for the year ended December 31			
Revenues	\$ 6,483	\$ 7,896	\$ 8,073
Costs and expenses	6,457	7,816	7,892
Income before income taxes	26	80	181
Income taxes	65	84	218
Net income (Loss)	\$ (39)	\$ (4)	\$ (37)
Alcan's share of Net income (Loss)	\$ (10)	\$ (3)	\$ (29)
Dividends received by Alcan	\$ 11	\$ 9	\$ 22
Financial position at December 31			
Current assets	\$ 3,013	\$ 3,842	\$ 4,029
Current liabilities	2,735	3,438	3,699
Working capital	278	404	330
Property, plant and equipment — net	1,916	2,347	4,209
Other assets — net	261	153	261
	2,455	2,904	4,800
Debt not maturing within one year	1,422	1,351	1,713
Net assets	\$ 1,033	\$ 1,553	\$ 3,087
Alcan's equity in net assets	\$ 421	\$ 688	\$ 1,185

9. Property, Plant and Equipment

	1996	1995	1994
Cost			
Land and property rights	\$ 236	\$ 247	\$ 140
Buildings, machinery and equipment	10,886	11,201	9,930
Construction work in progress	395	287	648
	\$11,517	\$11,735	\$10,718

Accumulated depreciation relates primarily to Buildings, machinery and equipment.

Capital expenditures for maintaining the productive capacity of the Company's existing assets are estimated at \$400 per year.

**10. Debt Not Maturing
Within One Year**

		1996	1995	1994
Alcan Aluminium Limited				
Deutschmark bank loans, due 2004/2005(DM391 million) (a)	\$ 251	\$ 276	\$ 256	
5.875% Debentures, due 2000 (b)	150	150	150	
5.375% Swiss franc bonds, due 2003 (c)	132	154	137	
CARIFA loan, due 2006 (d)	60	60	60	
9.5% Debentures, due 2010 (e)	100	100	100	
9.625% Sinking fund debentures, due 2019 (e)	150	150	150	
8.875% Debentures, due 2022 (f)	150	150	150	
Other debt, due 2001	8	8	8	
12.45% Canadian dollar debentures, due 1997 (c)(g)	—	92	89	
9.1% Debentures, due 1998 (g)	—	125	125	
Commercial paper (h)	—	—	117	
8.2% Debentures (g)	—	—	150	
9.7% Debentures (g)	—	—	125	
9.2% Debentures, due 2001 (g)	—	—	150	
Lira bank loans	—	—	46	
9.4% Debentures (g)	—	—	—	
Alcan Aluminum Corporation				
7.25% Debentures, due 1999 (i)	100	100	100	
Other debt, due 1997/2013	6	6	12	
6.375% Debentures, due 1997 (g)(i)	—	150	150	
9.956% Bank loan	—	—	25	
British Alcan Aluminium plc and subsidiary companies				
Other debt, due 1998	7	—	—	
Bank loans	—	54	94	
Alcan Deutschland GmbH and subsidiary companies				
6.78% Bank loans, due 1997 (DM3 million)	2	4	17	
7.75% Bank loans, due 2001 (DM15 million)	10	11	—	
Bank loans, due 2000/2001 (DM101 million) (a)	65	38	36	
Queensland Alumina Limited				
Bank loans, due 2000/2003 (a)	71	67	—	
Other companies				
Bank loans, due 1997/2011 (a)	48	48	13	
4% Eurodollar exchangeable debentures, due 2003 (j)	24	24	24	
Other debt, due 1997/2025	4	6	6	
	1,338	1,773	2,290	
Debt maturing within one year included in current liabilities	(19)	(28)	(70)	
	\$1,319	\$1,745	\$2,220	

- (a) Interest rates fluctuate principally with the lender's prime commercial rate, the commercial bank bill rate, or are tied to LIBOR rates.
- (b) Through an interest rate swap the Company had effectively converted the interest on the debentures to a rate tied to U.S. LIBOR for the period to October 1996.
- (c) The Canadian dollar debentures were issued as CAN\$125 million and the Swiss franc bonds as SFr178 million. Both debts were swapped for \$107 and \$105 at effective interest rates of 9.82% and 8.98%, respectively.
- (d) The Caribbean Basin Projects Financing Authority (CARIFA) loan bears interest at a rate related to U.S. LIBOR. The interest was swapped until April 1996 for a fixed rate of 6.74%. Certain terms and conditions of the loan are being renegotiated in 1997.

**10. Debt Not Maturing
Within One Year**
(cont'd)

- (e) The Company can redeem the 9.5% debentures between the years 2000 and 2007 at amounts declining from 104% to 100% of the principal and can redeem the 9.625% debentures between the years 1999 and 2009 at amounts declining from 105% to 100% of the principal. In certain circumstances prior to January 30, 2000, for the 9.5% debentures, or prior to July 30, 1999, for the 9.625% debentures, the holders may retract the debentures at 100%.
- (f) The interest was swapped until 1995 at a rate tied to U.S. LIBOR. The Company has the right to redeem the debentures during the years 2002 to 2012 at amounts declining from 104% to 100% of the principal amount.
- (g) The 9.4% debentures due June 1995, the 8.2% debentures due 1996, the 9.7% debentures due 1996, the 9.2% debentures due 2001 (callable in 1998), the CAN\$ 12.45% debentures due 1997, the 9.1% debentures due 1998 and the 6.375% debentures due 1997 were effectively extinguished in December 1994, June 1995, September 1995, December 1995, February 1996, February 1996 and September 1996, respectively, through transactions whereby the Company placed government securities in trusts, the sole purpose of which was to fund the repayment of the debentures and related interest.
- (h) Commercial paper is issuable in Canada at market rates and is fully backed by a long-term global multicurrency credit facility with a syndicate of banks amounting to \$1,000. This facility is available for use by the Company and designated subsidiaries.
- (i) The following is summarized consolidated financial information for Alcan Aluminum Corporation, a wholly-owned subsidiary which consolidates virtually all of the Company's operations in the United States:

	1996	1995	1994
Results of operations for the year ended December 31			
Revenues	\$3,389	\$3,937	\$3,753
Costs and expenses	3,242	3,708	3,806
Income (Loss) before income taxes	147	229	(53)
Income taxes	55	86	(18)
Net income (Loss)	\$ 92	\$ 143	\$ (35)
Financial position at December 31			
Current assets	\$ 868	\$ 615	\$ 737
Current liabilities	578	353	676
Working capital	290	262	61
Property, plant and equipment — net	756	795	840
Other liabilities — net	(186)	(138)	(124)
	860	919	777
Debt not maturing within one year	105	256	257
Net assets	\$ 755	\$ 663	\$ 520

The above figures are prepared using the accounting principles followed by the Company (see note 2), except that inventories have been valued principally by the last-in, first-out (LIFO) method.

Results of operations in 1995 included net after-tax gains on disposals of businesses of \$24. In 1994, results of operations included after-tax rationalization charges, net of gains on disposals of businesses, of \$6.

- (j) Debenture holders are entitled to receive at their option 1,772 common shares held by the Company in NLM, a related company, in exchange for each ten thousand dollar principal amount of debentures. The Company can redeem the debentures between the years 1997 and 1999 at amounts declining from 102% to 100% of the principal.

The Company has swapped, to 1998, the interest payments on \$100 of its floating rate debt in exchange for fixed interest payments.

Based on rates of exchange at year-end, debt repayment requirements over the next five years amount to \$19 in 1997, \$32 in 1998, \$126 in 1999, \$224 in 2000 and \$113 in 2001.

11. Restructuring of Holdings in Asia

In the third quarter of 1996, the Company sold its equity-accounted investment in Toyo Aluminium K.K. (Toyal) to the Company's Japanese affiliate, Nippon Light Metal Company, Ltd. (NLM), for cash proceeds of \$207. The after-tax gain of \$128, including deferred translation adjustments, on this sale has been deferred. Approximately one half of the gain is being recognized over the period related to the utilization of the underlying assets by Toyal, while the remainder will be recognized if certain non-depreciable assets are sold by Toyal.

In November 1996, the Company and NLM created a new company, Alcan Nikkei Asia Holdings Ltd. (ANAH), owned 60% by Alcan and 40% by NLM. In exchange for shares in ANAH the Company contributed a portion of its holdings in NLM while NLM contributed its shareholdings in a number of companies located in Malaysia, Thailand and China. The Company's effective ownership of ANAH, including the interests held through NLM, is 78.2% and the minority interest in ANAH's subsidiaries is presented on this basis.

As a result of this transaction, Alcan's effective ownership in NLM falls from 47.4% to 45.6%. The gain on the partial sale of the Company's investment in NLM has been deferred and will be recognized over the period related to the utilization or disposition of the underlying assets by ANAH's subsidiaries.

Included in the Company's balance sheet at the date of acquisition were the following assets and liabilities of ANAH's Asian subsidiaries:

Working capital	\$ 49
Property, plant and equipment	99
Other assets — net	9
	157
Long-term debt	4
Minority interest	71
Net assets	\$ 82

The Company's share of net income for the month since acquisition is not significant.

12. Deferred Credits and Other Liabilities

Deferred credits and other liabilities comprise the following elements:

	1996	1995	1994
Deferred revenues	\$ 74	\$ 87	\$117
Deferred profit on sale of investments	113	—	—
Post-retirement and post-employment benefits	405	426	432
Environmental liabilities	32	38	58
Rationalization costs	31	27	48
Claims	39	41	46
Other	76	82	95
	\$770	\$701	\$796

13. Preference Shares

Authorized

An unlimited number of Preference Shares issuable in series. All shares are without nominal or par value.

Authorized and Outstanding

In each of the years 1996, 1995 and 1994, there were authorized and outstanding 5,700,000 series C, 1,700,000 series D, and 3,000,000 series E, redeemable non-retractable preference shares with stated values of \$106, \$43 and \$54, respectively.

The 300 series G redeemable non-retractable preference shares with stated value of \$150, authorized and outstanding throughout 1994 and 1995, were redeemed in August 1996.

Outstanding shares are eligible for quarterly dividends as follows:

- Preference, series C, D and E — An amount related to the average of the Canadian prime interest rates for series C and E, and the average of the U.S. prime interest rates for series D, quoted by two major Canadian banks for stated periods.

Outstanding shares may be called for redemption at the option of the Company on 30 days' notice as follows:

- Preference, series C and E (denominated in Canadian dollars) and D (denominated in U.S. dollars) — At \$25.00 per share.

Any partial redemption must be made on a pro rata basis or by lot.

14. Common Shares

The authorized common share capital is an unlimited number of common shares without nominal or par value. Changes in outstanding common shares are summarized below:

	Number (in thousands)			Stated Value		
	1996	1995	1994	1996	1995	1994
Outstanding — beginning of year	225,913	224,685	224,060	\$1,219	\$1,195	\$1,183
Issued for cash:						
Executive share option plan	549	1,039	433	11	18	7
Dividend reinvestment and share purchase plans	158	189	192	5	6	5
Outstanding — end of year	226,620	225,913	224,685	\$1,235	\$1,219	\$1,195

14. Common Shares (cont'd)

Under the executive share option plan, certain employees may purchase common shares at market value on the effective date of the grant of each option. The average price of the shares covered by the outstanding options is CAN\$33.87 per share. These options vest generally over a period of four years from the grant date and expire at various dates during the next 10 years. Changes in the number of shares under option are summarized below:

	Number (in thousands)	1996	1995	1994
Outstanding – beginning of year	3,473	3,934	3,740	
Granted	853	752	1,022	
Exercised	(549)	(1,039)	(433)	
Cancelled	(62)	(174)	(395)	
Outstanding – end of year	3,715	3,473	3,934	

At December 31, 1996, the Company had reserved for issue under the executive share option plan 19,251,288 shares.

The Company does not recognize compensation expense for options granted under the executive share option plan. If the Company had elected to recognize compensation expense for these options in accordance with the methodology prescribed by Statement No. 123 of the U.S. Financial Accounting Standards Board, net income would have been lower by \$8, or \$0.04 per share, (\$7, or \$0.03 per share, in 1995).

Shareholder Rights Plan

In 1990, shareholders approved a plan whereby each common share of the Company carries one right to purchase additional common shares. The plan, with certain amendments, was reconfirmed at the 1995 Annual Meeting. The rights under the plan are not currently exercisable but may become so upon the acquisition by a person or group of affiliated or associated persons ("Acquiring Person") of beneficial ownership of 20% or more of the Company's outstanding voting shares or upon the commencement of a takeover bid. Holders of rights, with the exception of an Acquiring Person, in such circumstances will be entitled to purchase from the Company, upon payment of the exercise price (currently \$100.00), such number of additional common shares as can be purchased for twice the exercise price based on the market value of the Company's common shares at the time the rights become exercisable.

The plan has a permitted bid feature which allows a takeover bid to proceed without the rights under the plan becoming exercisable, provided that it meets certain minimum specified standards of fairness and disclosure, even if the Board does not support the bid.

The rights expire in 1999, but may be redeemed earlier by the Board, with the prior consent of the holders of rights or common shares, for 1 cent per right. In addition, should a person or group of persons acquire outstanding voting shares pursuant to a permitted bid or a share acquisition in respect of which the Board has waived the application of the plan, the Board shall be deemed to have elected to redeem the rights at 1 cent per right.

15. Retained Earnings

Consolidated retained earnings at December 31, 1996, includes \$186 of undistributed earnings of companies accounted for under the equity method and \$1,810 of undistributed earnings of subsidiaries and joint ventures, some part of which may be subject to certain taxes and other restrictions on distribution to the parent company; no provision is made for such taxes because these earnings are reinvested in the business.

16. Currency Gains and Losses

The following are the amounts recognized in the financial statements:

	1996	1995	1994
Currency gains (losses) excluding realized deferred translation adjustments:			
Forward exchange contracts and currency options	\$ 40	(\$56)	(\$62)
Other	(4)	(1)	(8)
	\$ 36	(\$57)	(\$70)
Deferred translation adjustments:			
Balance — beginning of year	\$304	\$292	\$100
Effect of exchange rate changes	(94)	12	152
Losses (gains) realized	(1)	—	40*
Balance — end of year	\$209	\$304	\$292

*Related principally to the sale of Alcan Australia Limited.

17. Financial Instruments and Commodity Contracts

In conducting its business, the Company uses various instruments, including forward contracts and options, to manage the risks arising from fluctuations in exchange rates, interest rates and aluminum prices. All such instruments are used for risk management purposes only.

Financial Instruments — Currency

The Company seeks to manage the risks arising from movements in exchange rates on identifiable firm cost commitments (principally Canadian dollar) and certain foreign currency denominated revenues. A combination of forward exchange contracts and options, covering periods of up to three years, are used to manage these risks.

At December 31, 1996, the contract amount of forward exchange contracts outstanding used to hedge future firm cost commitments was \$1,791 (\$2,017 in 1995 and \$1,568 in 1994) while the contract amount of purchased options (range forward contracts) outstanding used to hedge future firm cost commitments was \$614 (\$550 in 1995 and \$145 in 1994). At December 31, 1996, the contract amount of outstanding forward exchange contracts used to hedge future revenues was \$387 (\$256 in 1995 and \$268 in 1994).

The market value of outstanding forward exchange contracts related to hedges of costs or revenues at December 31, 1996, was such that if these contracts had been closed out, the Company would have received \$17 (\$37 in 1995 and \$5 in 1994). Based on prevailing market prices, if the currency option contracts (range forward contracts) had been closed out on December 31, 1996, the Company would have received \$1 (paid \$2 in 1995 and paid \$12 in 1994). Unrealized gains and losses on outstanding forward contracts and options are not recorded in the financial statements until maturity of the underlying transactions.

In addition, certain intercompany foreign currency denominated loans are hedged through the use of forward exchange contracts. At December 31, 1996, the contract amount of such forward contracts was \$231 (\$236 in 1995 and \$208 in 1994) and the market value was such that if these contracts had been closed out, the Company would have received \$2 (received \$4 in 1995 and paid \$2 in 1994).

Included in Deferred charges and other assets is an amount of \$2 (\$3 in 1995 and \$4 in 1994) consisting of net losses on terminated forward exchange contracts and options used to hedge future costs. These deferred charges will be included in Cost of sales and operating expenses at the same time as the underlying transactions being hedged are recognized.

Financial Instruments — Debt Not Maturing Within One Year

As explained in note 10, the 5.375% Swiss franc bonds of principal amount SFr178 have been swapped for \$105 at an effective interest rate of 8.98%. If the swap had been closed out at December 31, 1996, the Company would have received \$32 (\$47 in 1995 and \$27 in 1994) of which an amount of \$27 related to the swap of the principal (\$49 in 1995 and \$32 in 1994) has been recorded in Deferred charges and other assets.

Financial Instruments — Interest Rates

As stated in note 10, the Company enters into a number of interest rate swaps to manage funding costs as well as the volatility of interest rates. Net cash flows related to swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

17. Financial Instruments and Commodity Contracts (cont'd)

Changes in the fair value of the interest rate swaps are not recognized on a mark to market basis since these relate specifically to interest costs on identifiable debt.

If all interest rate swap agreements had been closed out on December 31, 1996, the Company would have paid \$6 (\$12 in 1995 and \$20 in 1994), based on prevailing interest rates.

Commodity Contracts — Metal

Depending on supply and market conditions, as well as for logistical reasons, the Company may sell primary metal to third parties and may purchase primary and secondary aluminum on the open market to meet its fabricated products requirements. In addition, the Company may hedge certain commitments arising from pricing arrangements with some of its customers.

Through the use of forward purchase and sales contracts and options, the Company seeks to limit the negative impact of low metal prices whilst retaining most of the benefit from higher metal prices.

At December 31, 1996, the Company had outstanding forward purchase contracts covering 474,300 tonnes (472,400 tonnes in 1995 and 490,000 tonnes at December 31, 1994), maturing at various dates in 1997, 1998 and 1999 (1996 and 1997 at December 31, 1995 and 1995 at December 31, 1994). In addition, the Company held call options outstanding for 591,300 tonnes (146,500 tonnes at December 31, 1995, and 46,000 tonnes at December 31, 1994) maturing at various dates in 1997 and 1998 (1996 and 1997 at December 31, 1995, and 1995 at December 31, 1994).

At December 31, 1994, the Company held 558,000 tonnes of put options which matured in 1995. The Company also had sold 415,000 tonnes of call options which gave the purchaser the right, at various dates in 1995, to any excess in metal prices above a predetermined level. This resulted in the metal price component of revenues for 415,000 tonnes of the Company's 1995 sales being established within a range and a minimum price being established in respect of 143,000 tonnes.

Included in Deferred charges and other assets is \$25 (\$7 in 1995 and \$19 in 1994) representing the net cost of outstanding options.

The option premiums paid and received, together with the realized gains or losses on the contracts, are included in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Based on metal prices prevailing on December 31, 1996, if all commodity forward purchase contracts and options had been closed out, the net amount received by the Company would have been \$20 (\$5 in 1995 and \$37 in 1994).

Counterparty Risk

As exchange rates, interest rates and metal prices fluctuate, the above contracts will generate gains and losses that will be offset by changes in the value of the underlying items being hedged. The Company may be exposed to losses in the future if the counterparties to the above contracts fail to perform. However, the Company is satisfied that the risk of such non-performance is remote, due to its controls on credit exposures.

Financial Instruments — Market Value

On December 31, 1996, the fair value of the Company's long-term debt totalling \$1,338 (\$1,773 in 1995 and \$2,290 in 1994) was \$1,363 (\$1,868 in 1995 and \$2,308 in 1994), based on market prices for the Company's fixed rate securities and the book value of variable-rate debt.

The market values of all other financial assets and liabilities and preference shares are approximately equal to their carrying values.

18. Commitments and Contingencies

The Company has guaranteed the repayment of approximately \$21 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. Commitments with third parties and certain related companies for supplies of goods and services are estimated at \$49 in 1997, \$64 in 1998, \$56 in 1999, \$34 in 2000, \$34 in 2001, and \$170 thereafter. Total fixed charges from these entities were \$14 in 1996, \$62 in 1995 and \$55 in 1994.

Minimum rental obligations are estimated at \$51 in 1997, \$47 in 1998, \$43 in 1999, \$16 in 2000, \$15 in 2001 and \$30 thereafter. Total rental expenses amounted to \$80 in 1996, \$94 in 1995 and \$94 in 1994.

Alcan, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the Company does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its financial position.

In addition, see reference to capital expenditures in note 9, debt repayments in note 10, and financial instruments and commodity contracts in note 17.

19. Supplementary Information

	1996	1995	1994
Income statement			
Interest on long-term debt	\$ 109	\$ 175	\$ 208
Capitalized interest	—	(2)	(16)
Balance sheet			
Payables			
Accrued employment costs	\$ 167	\$ 150	\$ 145
Short-term borrowings (principally from banks)	178	212	195
At December 31, 1996, the weighted average interest rate on short-term borrowings was 4.8% (7.3% in 1995 and 9.1% in 1994).			
Statement of cash flows			
Interest paid	\$ 133	\$ 218	\$ 237
Income taxes paid	214	71	62
All time deposits qualify as cash equivalents.			

20. Post-Retirement Benefits

Pension Plans

Alcan and its subsidiaries have established pension plans in the principal countries where they operate, for the greater part contributory and generally open to all employees. Most plans provide pension benefits that are based on the employee's highest average eligible compensation during any consecutive 36-month period before retirement. Plan assets consist primarily of listed stocks and bonds.

Alcan's funding policy is to contribute the amount required to provide for benefits attributed to service to date, with projection of salaries to retirement, and to amortize unfunded actuarial liabilities for the most part over periods of 15 years or less.

	1996	1995	1994
Service cost for the year	\$ 69	\$ 76	\$ 85
Interest cost on projected benefit obligation	225	215	206
Actual return on assets	(505)	(483)	64
Variance of actual return from expected long-term rate of 7.3% (7.5% in 1995 and 7.4% in 1994) being deferred, and amortization of gains and losses			
	241	221	(312)
Net cost for the year	\$ 30	\$ 29	\$ 43
Included in the net cost for 1996 are \$27 of settlement gains (\$16 in 1995 and \$16 in 1994) and \$22 of curtailment losses (\$1 in 1995 and \$11 in 1994) related to the disposal of certain businesses.			

The plans' funded status at December 31 was:

Actuarial accumulated benefit obligation, which is substantially vested*	\$3,117	\$2,818	\$2,553
Plan assets at market value	\$3,986	\$3,447	\$3,087
Actuarial projected benefit obligation based on average compensation growth of 4.9% (4.8% in 1995 and 5.0% in 1994) and discount rate of 7.2% (7.1% in 1995 and 7.4% in 1994)	3,506	3,210	2,900
Plan assets in excess of projected benefit obligation	480	237	187
Unamortized actuarial gains — net**	(779)	(495)	(430)
Unamortized prior service cost**	313	287	300
Unamortized portion of net surplus at January 1, 1986**	(71)	(93)	(117)
Net pension liability in balance sheet	\$ (57)	\$ (64)	\$ (60)

*Includes commitments for which the actuarial accumulated benefit obligation exceeds plan assets by \$147 in 1996 (\$108 in 1995 and \$109 in 1994). These have been fully provided in the Company's accounts (see note 12).

**Being amortized over expected average remaining service of employees, generally 15 years.

**20. Post-Retirement Benefits
(cont'd)**

Other

The Company provides life insurance benefits under some of its retirement plans. Certain early retirement arrangements also provide for medical benefits, generally only until the age of 65. These plans are not funded.

	1996	1995	1994
Service cost for the year	\$ 4	\$ 4	\$ 6
Interest cost on accumulated benefit obligation	12	13	14
Amortization of gains and losses	(5)	(15)	(12)
Total cost for the year	\$ 11	\$ 2	\$ 8

Included in the total cost for 1996 is \$1 of curtailment gains (\$12 in 1995 and \$11 in 1994) related to the disposal of certain businesses.

Accumulated benefit obligation (ABO) based on average compensation growth of 5.2% (5.2% in 1995 and 5.2% in 1994) and discount rate of 7.0% (7.0% in 1995 and 7.6% in 1994):

Active employees		\$ 61	\$ 66	\$ 66
– not fully eligible		29	28	25
– fully eligible		88	97	91
Retired employees				
Total ABO		178	191	182
Unamortized gains – net		24	11	28
ABO in balance sheet		\$202	\$202	\$210

The assumed health care cost trend rate used in calculating the above amounts was 8.5% in 1996 (11.0% in 1995 and 11.0% in 1994), decreasing gradually to 5.0% (5.0% in 1995 and 6.0% in 1994) in 2006. If the average of such rate was increased by 1.0%, the ABO would increase by approximately \$8 and the periodic cost of post-retirement benefits other than pensions would increase by approximately \$1 per year.

21. Information by Product Sectors

The following presents selected information by major product sector, viewed on a stand-alone basis. Transactions between product sectors are conducted on an arm's length basis and reflect market-related prices. Thus, profit on all alumina produced by the Company, whether sold to third parties or used in the Company's smelters, is included in the raw materials and chemicals sector. Similarly, income from primary metal operations is mainly profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Income from fabricated product businesses represents only the fabricating profit on rolled products and downstream businesses.

Capital employed is defined as the sum of short and long-term debt, deferred income taxes, minority interests, preference shares and common shareholders' equity.

	Sales and operating revenues				Operating income	
	Intersector		Third parties		1996	1995
	1996	1995	1996	1995		
Raw materials and chemicals	\$ 507	\$ 555	\$ 529	\$ 618	\$ 95	\$ 203
Primary metal	1,653	2,286	1,472	1,612	519	701
Fabricated products	—	—	5,593	6,983	127	346
Intersector and other items	(2,160)	(2,841)	20	74	147	(49)
	\$ —	\$ —	\$ 7,614	\$ 9,287	\$ 888	\$ 1,201
Reconciliation to net income before extraordinary item						
Equity loss					(10)	(3)
Corporate offices					(117)	(111)
Interest					(125)	(204)
Income taxes					(226)	(340)
Net income before extraordinary item					\$ 410	\$ 543
Capital Employed						
at December 31						
Raw materials and chemicals					\$1,173	\$1,146
Primary metal					2,430	2,596
Fabricated products					3,365	3,797
Equity companies less intersector items					481	288
					\$7,449	\$7,827

**22. Information
by Geographic Areas**

	Location	1996	1995	1994
Sales and operating revenues — subsidiaries	Canada	\$ 2,169	\$ 2,740	\$ 2,300
	United States	499	552	453
	South America	25	41	15
	Europe	216	222	174
	Asia and Pacific	78	96	53
	All other	349	338	266
	Sub-total	3,336	3,989	3,261
	Consolidation eliminations	(3,336)	(3,989)	(3,261)
	Total	\$ —	\$ —	\$ —
Sales to subsidiary companies are made at fair market prices recognizing volume, continuity of supply and other factors.				
Sales and operating revenues — third parties	Canada	\$ 1,210	\$ 1,258	\$ 952
	United States	2,871	3,306	3,288
	South America	579	719	556
	Europe	2,633	3,632	2,813
	Asia and Pacific	290	326	567
	All other	31	46	40
	Total	\$ 7,614	\$ 9,287	\$ 8,216
Net income	Canada	\$ 175	\$ 216	\$ 16
	United States	70	123	16
	South America	42	15	9
	Europe	21	161	76
	Asia and Pacific	13	43	28
	All other	31	39	7
	Consolidation eliminations	58	(54)	(56)
	Net income before extraordinary item	410	543	96
	Extraordinary loss — Canada	—	280	—
	Total	\$ 410	\$ 263	\$ 96
Total assets at December 31	Canada	\$ 4,159	\$ 4,033	\$ 4,589
	United States	1,820	1,679	1,872
	South America	739	854	859
	Europe	3,189	3,520	3,087
	Asia and Pacific	983	1,078	1,019
	All other	477	463	373
	Consolidation eliminations	(2,042)	(1,891)	(1,796)
	Total	\$ 9,325	\$ 9,736	\$ 10,003
Capital expenditures and investments	Canada	\$ 143	\$ 99	\$ 65
	United States	55	63	58
	South America	43	45	22
	Europe	185	196	197
	Asia and Pacific	7	3	4
	All other	49	35	10
	Total	\$ 482	\$ 441	\$ 356
Average number of employees (in thousands)	Canada	11	11	12
	United States	4	4	7
	South America	4	6	6
	Europe	12	15	14
	Asia and Pacific	1	—	2
	All other	2	3	1
	Total	34	39	42

QUARTERLY FINANCIAL DATA
(in millions of US\$)
(unaudited)

	First	Second	Third	Fourth	Year
1996					
Revenues	\$ 2,015	\$ 1,972	\$ 1,881	\$ 1,821	\$ 7,689
Cost of sales and operating expenses	1,528	1,501	1,460	1,416	5,905
Depreciation	110	108	108	105	431
Income taxes	69	74	57	26	226
Other items	183	177	155	202	717
Net income ⁽¹⁾	\$ 125	\$ 112	\$ 101	\$ 72	\$ 410
Dividends on preference shares	5	5	4	2	16
Net income attributable to common shareholders	\$ 120	\$ 107	\$ 97	\$ 70	\$ 394
Net income per common share (in US\$) ⁽²⁾	\$ 0.53	\$ 0.47	\$ 0.43	\$ 0.31	\$ 1.74
Net income under U.S. GAAP ⁽³⁾	\$ 120	\$ 118	\$ 111	\$ 71	\$ 420
1995					
Revenues	\$ 2,455	\$ 2,449	\$ 2,288	\$ 2,195	\$ 9,387
Cost of sales and operating expenses	1,874	1,843	1,750	1,766	7,233
Depreciation	109	113	115	110	447
Income taxes	102	99	86	53	340
Other items	196	214	194	220	824
Net income before extraordinary item	174	180	143	46	543
Extraordinary loss	—	—	280	—	280
Net income (Loss) ⁽¹⁾	\$ 174	\$ 180	\$ (137)	\$ 46	\$ 263
Dividends on preference shares	6	6	5	7	24
Net income (Loss) attributable to common shareholders	\$ 168	\$ 174	\$ (142)	\$ 39	\$ 239
Net income before extraordinary item per common share (in US\$) ⁽²⁾	\$ 0.75	\$ 0.77	\$ 0.61	\$ 0.17	\$ 2.30
Extraordinary loss per common share (in US\$)	—	—	1.24	—	1.24
Net income (Loss) per common share (in US\$) ⁽²⁾	\$ 0.75	\$ 0.77	\$ (0.63)	\$ 0.17	\$ 1.06
Net income before extraordinary item under U.S. GAAP ⁽³⁾	\$ 176	\$ 172	\$ 119	\$ 94	\$ 561
Net income (Loss) under U.S. GAAP ⁽³⁾	\$ 176	\$ 172	\$ (176)	\$ 94	\$ 266
1994					
Revenues	\$ 1,809	\$ 2,068	\$ 2,196	\$ 2,252	\$ 8,325
Cost of sales and operating expenses	1,497	1,689	1,757	1,797	6,740
Depreciation	109	113	104	105	431
Income taxes	—	28	51	33	112
Other items	228	231	218	269	946
Net income (Loss) ⁽¹⁾	\$ (25)	\$ 7	\$ 66	\$ 48	\$ 96
Dividends on preference shares	4	5	6	6	21
Net income (Loss) attributable to common shareholders	\$ (29)	\$ 2	\$ 60	\$ 42	\$ 75
Net income (Loss) per common share (in US\$) ⁽²⁾	\$ (0.13)	\$ 0.01	\$ 0.27	\$ 0.19	\$ 0.34
Net income under U.S. GAAP ⁽³⁾	\$ 5	\$ 18	\$ 15	\$ 137	\$ 175

⁽¹⁾ The first quarter of 1996 included an after-tax charge of \$12 on the in-substance defeasance of debentures. The third quarter of 1996 included an after-tax gain of \$8 from the sale of businesses.

The first quarter of 1995 included an after-tax gain of \$24 from the sale of Alcan's metal distribution business in the U.S. The second, third and fourth quarters of 1995 included after-tax charges of \$3, \$4 and \$8 respectively on the in-substance defeasance of debentures.

The first quarter of 1994 included an after-tax rationalization charge of \$11 and an offsetting gain of \$11 from the dilution in Alcan's ownership in Indian Aluminum Company, Limited. The third quarter of 1994 included a net gain of \$39 on disposal of businesses partly offset by after-tax provisions of \$12 related to restructuring charges in Brazil and early retirement of debt in the U.K. The fourth quarter of 1994 included special charges of \$25 after tax, related largely to the rationalization of ongoing businesses and losses on the disposal of certain other businesses.

⁽²⁾ Net income (Loss) per common share calculations are based on the average number of common shares outstanding in each period.

⁽³⁾ See note 5 to the consolidated financial statements for explanation of differences between Canadian and U.S. GAAP.

		1996	1995	1994
Consolidated Income Statement Items <i>(in millions of US\$)</i>	Revenues			
	Sales and operating revenues	7,614	9,287	8,216
	Other income	75	100	109
	Total revenues	7,689	9,387	8,325
	Costs and expenses			
	Cost of sales and operating expenses	5,905	7,233	6,740
	Depreciation	431	447	431
	Selling, administrative and general expenses	422	484	528
	Research and development expenses	71	76	72
	Interest	125	204	219
	Other expenses	88	61	95
	Income taxes	226	340	112
	Equity income (loss)	(10)	(3)	(29)
	Minority interests	(1)	4	(3)
	Net income (Loss) before extraordinary item	410	543	96
	Extraordinary loss	—	280	—
	Net income (Loss)	410	263	96
	Preference dividends	16	24	21
	Net income (Loss) attributable to common shareholders	394	239	75
Consolidated Balance Sheet Items <i>(in millions of US\$)</i>	Operating working capital	1,461	1,731	1,675
	Property, plant and equipment – net	5,470	5,672	5,534
	Total assets	9,325	9,736	10,003
	Total debt	1,516	1,985	2,485
	Deferred income taxes	996	979	914
	Preference shares	203	353	353
	Common shareholders' equity	4,661	4,482	4,308
Per Common Share <i>(in US\$)</i>	Net income (Loss) before extraordinary item	1.74	2.30	0.34
	Net income (Loss)	1.74	1.06	0.34
	Dividends paid	0.60	0.45	0.30
	Common shareholders' equity	20.57	19.84	19.17
	Market price – NYSE close	33.63	31.13	25.38
Operating Data <i>(in thousands of tonnes)</i>	Consolidated aluminum shipments			
	Ingot products*	810	801	897
	Fabricated products	1,539	1,733	1,763
	Fabrication of customer-owned metal	258	225	189
	Total aluminum shipments	2,607	2,759	2,849
	Consolidated primary aluminum production	1,407	1,278	1,435
	Consolidated aluminum purchases	1,003	1,365	1,350
	Consolidated aluminum inventories (<i>end of year</i>)	408	449	435
	** Primary aluminum capacity			
	Consolidated subsidiaries	1,561	1,561	1,561
	Total consolidated subsidiaries and related companies	1,698	1,712	1,712
Other Statistics	Cash from operating activities (<i>in millions of US\$</i>)	981	1,044	65
	Capital expenditures (<i>in millions of US\$</i>)	482	441	356
	Ratio of total borrowings to equity (%)	23.77	29.71	35.65
	Average number of employees (<i>in thousands</i>)	34	39	42
	Common shareholders – registered (<i>in thousands at end of year</i>)	22	23	26
	Common shares outstanding (<i>in millions at end of year</i>)	227	226	225
	Registered in Canada (%)	61	61	55
	Registered in the United States (%)	39	38	44
	Registered in other countries (%)	—	1	1
	Return on average common shareholders' equity (%)	9	5	2
	Before extraordinary item (%)	11		

*Includes primary and secondary ingot and scrap.

**Primary aluminum capacity has been restated to reflect better the actual production levels achieved over a period of time.

1993	1992	1991	1990	1989	1988	1987	1986
7,232 75	7,596 69	7,748 82	8,757 162	8,839 208	8,529 97	6,797 81	5,956 100
7,307	7,665	7,830	8,919	9,047	8,626	6,878	6,056
6,002 443	6,300 449	6,455 429	6,996 393	6,682 333	6,072 316	5,117 296	4,635 276
551 99	596 125	635 131	659 150	600 136	525 132	447 177	406 77
212 106	254 118	246 163	197 65	130 62	137 91	177 113	202 52
(13) (12)	(17) 53	(104) 89	126 211	350 97	497 97	230 35	134 5
1	(5)	—	(1)	(16)	(22)	(5)	(2)
(104)	(112)	(36)	543	835	931	433	277
—	—	—	—	—	—	—	—
(104) 18	(112) 23	(36) 20	543 22	835 21	931 30	433 36	277 33
(122)	(135)	(56)	521	814	901	397	244
1,314 6,005	1,460 6,256	1,717 6,525	1,842 6,167	1,774 5,260	1,764 4,280	1,735 3,965	1,594 3,949
9,812 2,652	10,154 2,794	10,843 3,024	10,681 2,648	9,518 1,734	8,627 1,530	7,693 1,558	7,118 1,616
888 353	955 353	1,126 212	1,092 212	1,044 212	1,006 211	754 405	554 421
4,096	4,266	4,730	4,942	4,610	4,109	3,565	3,116
(0.54) (0.54)	(0.60) (0.60)	(0.25) (0.25)	2.33 2.33	3.58 3.58	3.85 3.85	1.68 1.68	1.09 1.09
0.30	0.45	0.86	1.12	1.12	0.59	0.39	0.35
18.28 20.75	19.06 17.63	21.17 20.00	22.19 19.50	20.30 22.88	18.06 21.75	15.05 17.92	13.18 12.55
887 1,560 91	870 1,389 206	866 1,333 145	857 1,488 81	743 1,518 75	832 1,446 80	787 1,410 99	731 1,388 107
2,538 1,631 865 403	2,465 1,612 675 418	2,344 1,695 591 463	2,426 1,651 646 447	2,336 1,643 718 539	2,358 1,619 716 480	2,296 1,587 593 496	2,226 1,641 489 579
1,711	1,711	1,676	1,685	1,685	1,680	1,680	1,841
1,862	1,862	1,827	1,836	1,836	1,831	1,861	1,905
444 370 37:63 46	465 474 37:63 49	659 880 37:63 54	760 1,367 33:67 57	970 1,466 26:74 57	1,370 676 26:74 56	879 415 27:73 63	725 342 31:69 67
28 224 59 40 1 (3)	32 224 69 30 1 (3)	34 223 68 31 1 (1)	38 223 54 44 2 11	40 227 44 54 2 19	41 228 54 43 3 24	46 237 44 53 3 12	49 237 43 52 5 8

All per-share amounts reflect the three-for-two share splits on May 5, 1987, and May 9, 1989.

See note 5 to the consolidated financial statements for U.S. GAAP information.

The business and affairs of Alcan are managed by its Board of Directors acting through the Management of the Company. The Directors and Officers of Alcan are named on the opposite page. In discharging its duties and obligations, the Alcan Board acts in accordance with the provisions of the Canada Business Corporations Act, the Company's constituting documents and by-laws and other applicable legislation and Alcan policies.

Alcan does not have a controlling shareholder nor do any of the Directors represent the investment of any minority shareholder.

Corporate governance has traditionally received the active attention of Alcan's Board. For instance, an intensive review of the guiding principles of Alcan conducted by the Board in the 1970s led to the publication in 1978 of a policy statement entitled *Alcan, Its Purpose, Objectives and Policies*, which has remained fundamentally unchanged. That statement represents the basic business principles which guide Alcan employees in conducting a widespread international enterprise and has helped Alcan achieve public understanding and trust. To that original document, a *Code of Conduct* is now added to reinforce it with more detailed guidelines for Alcan employees as well as consultants and contractors engaged by Alcan.

The Montreal and Toronto stock exchanges now require a formal description of corporate governance practices by all listed companies. Alcan's disclosure in this regard is published in the Management Proxy Circular issued in connection with the forthcoming Annual Meeting; a copy is available from Shareholder Services at the address on page 65.

Committees of the Board (described briefly below) assist the Board in carrying out its functions and make recommendations to it on various matters. Membership of these Committees is indicated on the opposite page.

The **Corporate Governance Committee** has the responsibility for reviewing Board practices and performance, candidates for directorship and Board Committee membership. It also considers recommendations from the Personnel Committee regarding Board compensation and the appointments of the Chairman of the Board and the Chief Executive Officer.

The **Audit Committee** assists the Board in fulfilling its functions relating to corporate accounting and reporting practices as well as financial and accounting controls, in order to provide effective oversight of the financial reporting process; it also reviews financial statements as well as proposals for issues of securities.

The **Environment Committee** has the responsibility for reviewing policy, management practices and performance of Alcan in environmental matters.

The **Personnel Committee** has the responsibility for reviewing all personnel policy and employee relations matters (including compensation), and for making recommendations to the Corporate Governance Committee on Board compensation and on the appointments of the Chairman of the Board and the Chief Executive Officer. All matters relating to the Chief Executive Officer are dealt with by non-executive members of the Committee.

A special committee composed of members of the Personnel Committee, except the Chief Executive Officer, administers the Alcan Executive Share Option Plan.

As at February 13, 1997

DIRECTORS

Dr. John R. Evans, C.C.^{1, 3, 8}
 Chairman of the Board
 of Alcan Aluminium Limited,
 Montreal
 Age 67, director since 1986

Sonja I. Bata, O.C.^{5, 7}
 Director of Bata Limited,
 Toronto
 Age 70, director since 1979

W. R. C. Blundell^{2, 7}
 Director of various companies,
 Toronto
 Age 69, director since 1987

Jacques Bougie, O.C.^{3, 5}
 President and Chief Executive Officer
 of Alcan Aluminium Limited,
 Montreal
 Age 49, director since 1989

Warren Chippindale, F.C.A.^{1, 4, 7}
 Director of various companies,
 Montreal
 Age 68, director since 1986

D. Travis Engen^{1, 7}
 Chairman, President and
 Chief Executive Officer of ITT Industries, Inc.,
 New York
 Age 52, director since 1996

Allan E. Gotlieb, C.C.^{3, 5, 7}
 Director of various companies,
 Toronto
 Age 68, director since 1989

J. E. Newall, O.C.^{3, 6, 7}
 Vice Chairman and Chief Executive Officer
 of NOVA Corporation,
 Calgary
 Age 61, director since 1985

Dr. Peter H. Pearse, C.M.^{5, 7}
 President of Pearse Ventures Limited,
 Vancouver
 Age 64, director since 1989

Sir George Russell, C.B.E.^{1, 3, 7}
 Chairman of Marley plc,
 Kent, England
 Age 61, director since 1987

Guy Saint-Pierre, O.C.^{1, 7}
 Chairman of SNC - Lavalin Group Inc.,
 Montreal
 Age 62, director since 1994

Gerhard Schulmeyer⁷
 President and Chief Executive Officer
 of Siemens Nixdorf Informationssysteme AG,
 Munich
 Age 58, director since 1996

OFFICERS

Jacques Bougie
 President and Chief Executive Officer

Robert L. Ball
 Executive Vice President,
Corporate Development and Technology

Claude Chamberland
 Executive Vice President,
Smelting and Power

Jean-Pierre M. Ergas
 Executive Vice President,
Europe

Robert J. Fox
 Executive Vice President,
South Pacific and Japan;
Environment, Occupational Health and Safety

S. Bruce Heister
 Executive Vice President,
Asia

Emery P. LeBlanc
 Executive Vice President,
Raw Materials and Chemicals

Everaldo N. Santos
 Executive Vice President,
South America

Brian W. Sturgell
 Executive Vice President,
Fabricated Products, North America

Daniel Gagnier
 Vice President, Corporate Affairs

Gaston Ouellet
 Vice President, Human Resources

P. K. Pal
 Vice President, Chief Legal Officer
 and Secretary

Suresh Thadhani
 Vice President and Chief Financial Officer

Geraldo Nogueira de Aguiar
 Treasurer

Denis G. O'Brien
 Controller

¹Member of Audit Committee

²Chairman of Audit Committee

³Member of Personnel Committee

⁴Chairman of Personnel Committee

⁵Member of Environment Committee

⁶Chairman of Environment Committee

⁷Member of Corporate Governance Committee

⁸Chairman of Corporate Governance Committee

COMMON SHARES

The principal markets for trading in Alcan's common shares are the New York and Toronto stock exchanges. The common shares are also traded on the Montreal, Vancouver, Chicago, Pacific, London, Paris, Brussels, Amsterdam, Frankfurt, Swiss and Tokyo stock exchanges.

The transfer agents for the common shares are The R-M Trust Company in Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, Chemical Mellon Shareholder Services, L.L.C. in New York, and The R-M Trust Company in England.

Common Share dividends are paid quarterly on or about the 20th of March, June, September and December to shareholders of record on or about the 20th of February, May, August and November, respectively.

Dividend			Prices* and Average Daily Trading Volumes							
1996 Quarter	US\$	New York Stock Exchange (US\$)				Toronto Stock Exchange (CAN\$)				
		High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume	
First	0.150	33 7/8	28 3/8	32 1/4	398,500	46	38 3/4	44	709,100	
Second	0.150	34 1/8	30 1/8	30 1/2	367,400	46.40	40.75	41.55	468,100	
Third	0.150	32 3/8	28 5/8	30	327,200	44.45	39.35	40.70	406,500	
Fourth	0.150	36 1/8	29 3/4	33 5/8	435,200	48.50	40.10	46.25	664,500	
Year	0.600									
1995										
Quarter										
First	0.075	27 1/4	23 3/8	26 5/8	446,694	38 5/8	33 1/8	37 1/8	540,557	
Second	0.075	30 3/8	26 1/4	30 1/4	394,053	41 3/4	36 5/8	41 1/2	638,672	
Third	0.150	36 5/8	30 1/2	32 3/8	734,227	49 5/8	41 3/4	43 1/2	778,956	
Fourth	0.150	34 1/2	28 5/8	31 1/8	492,815	47 1/8	39 3/8	42 3/8	811,183	
Year	0.450									

*The share prices are those reported as New York Stock Exchange — Consolidated Trading and reported by the Toronto Stock Exchange. Since April 15, 1996, share prices on the Toronto Stock Exchange are expressed in decimals.

PREFERENCE SHARES

The preference shares are listed on the Montreal, Toronto and Vancouver stock exchanges. The transfer agent for the preference shares is The R-M Trust Company.

INVESTMENT PLANS

The Company offers holders of common shares two convenient ways of buying additional Alcan common shares without payment of brokerage commissions. These are known as the Dividend Reinvestment Plan and the Share Purchase Plan. Copies of the prospectus describing these Plans may be obtained from Shareholder Services at the address on page 65.

SECURITIES REPORTS FOR 1996

The Company's annual information form, to be filed with the Canadian securities commissions, and the annual 10-K report, to be filed with the Securities and Exchange Commission in the United States, will be available to shareholders after April 1, 1997. Copies of both may be obtained from Shareholder Services at the address on page 65.

FURTHER INFORMATION

Contact for shareholder

account inquiries:

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Manager,

Shareholder Services

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Investor contact:

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Director, Investor

and Media Relations

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Charles Belbin

Manager, Investor

and Media Relations

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Copies of the Company's press releases are available by fax. Call 1-800-251-3553. There is no charge for this service.

*This list names only the principal subsidiaries, related companies or divisions in each country where the Alcan Group had a significant presence as at December 31, 1996, unless otherwise indicated. A complete list is contained in the Company's 10-K Report, available from Alcan's headquarters in Montreal.

NORTH AMERICA**Bermuda**

Alcan (Bermuda) Limited
Alcan Nikkei Asia Holdings Ltd. (78.2%)¹

Canada

Alcan Aluminium Limited
Alcan Cable
Alcan International Limited
Alcan Rolled Products Company
Alcan Smelters and Chemicals Ltd.

Jamaica

Alcan Jamaica Company

United States

Alcan Aluminum Corporation
Alcan Cable
Alcan Ingots
Alcan Recycling
Alcan Rolled Products Company

SOUTH AMERICA**Brazil**

Alcan Alumínio do Brasil S.A.
Consortio Alumínio do Maranhão (Alumar Consortium) (10%)
Mineração Rio do Norte S.A. (12.5%)
Petrocoque S.A. — Industria & Comércio (25%)

Uruguay

Alcan Alumínio del Uruguay S.A. (89.9%)

AFRICA**Ghana**

Ghana Bauxite Company Limited (45%)

Guinea

Compagnie des Bauxites de Guinée (16.8%)
Friguia (10.2%)

EUROPE**France**

Alcan France (Technal)

Germany

Alcan Deutschland GmbH
Aluminium Norf GmbH (50%)

Ireland

Aughinish Alumina Limited

Italy

Alcan Alluminio S.p.A.

Norway

Vigeland Metal Refinery A/S (50%)

Spain

Alcan Palco S.A.

Switzerland

Alcan Aluminium AG
Alcan Rorschach AG

United Kingdom

British Alcan Aluminium plc

PACIFIC**Australia**

Alcan South Pacific Pty Ltd.
Queensland Alumina Limited (21.4%)

China

Nonfemet International (China-Canada-Japan)
Aluminium Company Limited (35.2%)³

Hong Kong

Alcan Asia Limited
Alcan Nikkei China Limited (72.3%)²
Alcan Nikkei Korea Limited (72.3%)²

India

Indian Aluminium Company, Limited (34.6%)

Japan

Alcan Pacific Limited
Alcan Asia Limited (Japan Branch)
Nippon Light Metal Company, Ltd. (45.6%)

Korea

Alcan Nikkei Korea Limited (Seoul Branch)

Malaysia

Alcan Nikkei Asia Company Ltd. (78.2%)
Aluminium Company of Malaysia Berhad
(46.3%)³

Thailand

Nikkei Siam Aluminium Company, Ltd. (54.8%)³
Nikkei-Thai Aluminium Company, Ltd. (60.7%)³

¹Alcan's direct interest is 60%, the remaining interest is held through Nippon Light Metal Company, Ltd.

²Alcan's direct interest is 49%, the remaining interest is held through Nippon Light Metal Company, Ltd.

³Interest held through Alcan Nikkei Asia Holdings Ltd. which is 78.2% owned by Alcan.



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Alcan Aluminium Limited

